

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:)	
)	Investigation No.:
CERTAIN TISSUE PAPER PRODUCTS AND)	731-TA-1070
CREPE PAPER PRODUCTS FROM CHINA)	(Preliminary)

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March 9, 2004

Courtroom A
U.S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

The hearing commenced, pursuant to Notice, at 9:28 a.m., before the Staff of the United States International Trade Commission, Robert Carpenter, Director of Investigations, presiding.

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On behalf of the International Trade Commission:Staff:

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FRED RUGGLES, the Investigator
DOUGLAS CORKRAN, the Supervisory Investigator
MICHAEL DIEHL, the Attorney/Advisor
MARY PEDERSEN, the Economist
CHAND MEHTA, the Accountant
FRED FORSTALL, the Industry Analyst

In Support of the Imposition of Antidumping Duties:

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KATHLEEN W. CANNON, ESQ.
ADAM H. GORDON, ESQ.
Collier Shannon Scott
Washington, D.C.

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APPEARANCES: (continued)

In Support of the Imposition of Antidumping Duties:

Seaman Paper Company of Massachusetts
George Jones III, President
Ted Tepe, VP Consumer Products

Flower City Tissue Mills Co.
Bill Shafer III, President

Georgetown Economic Services
Patrick J. Magrath, Director
Gina E. Beck, Economist

In Opposition to the Imposition of Antidumping Duties:

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Capital Trade Inc.
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Robert Moreland, President

WEGO CHEMICAL & MINERAL CORP.
Sheldon Freeman, Product Manager

Glitterwrap, Inc.
Alfred Scott, Chief Executive Officer

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(9:28 a.m.)

The purpose of this conference is to allow you to present your views with respect to the subject matter of the investigation in order to assist the Commission in determining whether there is a reasonable indication that a U.S. industry is materially injured or threatened with material injury by reason of imports of the subject merchandise.

We will start the conference with a five minute opening statement from each side, beginning with the petitioner. Following the opening statements, each side

1 will be given one hour for their direct testimony. The
2 staff will ask questions of each panel after their
3 presentation, but no questions from opposing parties will be
4 permitted. At the conclusion of the statements from both
5 sides, each side will be given ten minutes to rebut opposing
6 statements and make concluding remarks.

7 Speakers will not be sworn in. However, you are
8 reminded of the applicability of 18 U.S.C. 1001 to false or
9 misleading statements, and to the fact that the record of
10 this proceeding may be subject to court review if there is
11 an appeal. Additionally, speakers are reminded not to refer
12 in their remarks to business proprietary information and to
13 speak directly into the microphones. Finally, we ask that
14 you state your name and affiliation for the record before
15 beginning your presentation.

16 Are there any questions?

17 (No response.)

18 If not, welcome Mr. Hartquist, please come forward
19 with your opening statement.

20 OPENING STATEMENT ON BEHALF OF THE PETITIONERS

21 MR. HARTQUIST: Good morning, Mr. Carpenter, and
22 members of the Commission staff. I'm David A. Hartquist of
23 Collier Shannon Scott representing the petitioners this
24 morning.

25 The petitioners are domestic producers of certain

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1 tissue paper and crepe paper products. Accompanying me this
2 morning will be representatives of these companies who will
3 describe the products subject to the case and the injury
4 that companies have suffered due to the unfairly traded
5 imports from China.

6 Is that my mike?

7 (Pause.)

8 MR. HARTQUIST: Let me provide an overview of the
9 key issues first in this case.

10 First, like product. We believe that tissue paper
11 and crepe paper products subject to the case constitute two
12 separate like products and two separate industries based
13 upon the factors traditionally analyzed by the Commission.
14 Whether the Commission defines these products as a single
15 like product or as separate products, however, we believe
16 the injury factors set forth in the statute are satisfied
17 either way.

18 Second, the domestic industry. As you will hear,
19 there has been quite a shift in the interest and the
20 operations of the domestic producers of subject product in
21 the last few years. Due to an inability to compete with the
22 ever-declining prices of imports from China companies that
23 used to be substantial domestic producers of these products
24 have shifted to importing instead. This has contributed to
25 declining domestic production and worker layoffs.

1 Third, conditions of competition. The most
2 important condition of competition that domestic producers
3 of tissue paper and crepe paper face in today's markets is
4 the price-based nature of the competition. Imported Chinese
5 tissue paper and crepe paper are interchangeable with U.S.
6 paper of those similar products as you will see from the
7 samples that we'll provide during the testimony this
8 morning.

9 The majority of the tissue paper sold by both
10 Chinese and domestic producers whether in reams or in folds
11 is white or other solid color paper. Domestic producers and
12 Chinese producers make the same basic range of types and
13 colors and designs, many to individual customer's
14 specifications. There are no significant differences
15 between the U.S. and the imported products that would
16 explain the inroads that the Chinese imports have made in
17 this market other than price.

18 Fourth, injury from subject imports. Rarely have
19 I been involved in a case in which petitioners have been
20 able to present the Commission with the number of lost sales
21 and lost revenue examples that domestic producers have
22 provided in this case. Because of the relatively limited
23 number of purchases of these products, many very large
24 purchasers of the products were able to identify specific lost
25 sales and entire accounts taken over by the Chinese suppliers.

1 The reason is simple, Chinese prices are well
2 below domestic producer prices. Domestic producers have
3 been forced to reduce their prices in an effort to compete
4 with the Chinese product. The overall result has been a
5 decline in the domestic industry market share, closures of
6 domestic facilities, layoffs of employees and weak and
7 deteriorating profits.

8 And last we'll deal also with the threat of
9 injury, although the facts establish injury, current injury
10 to the industry, the threat is also very clear, the capacity
11 in China for production of these products is simply
12 enormous. The U.S. market has been and will continue to be
13 the target of this huge capacity. Unless duties are imposed
14 to offset massive dumping on these imports the remaining
15 members of the domestic industry will soon be out of
16 business.

17 Thank you very much.

18 MR. CARPENTER: Thank you, Mr. Hartquist.

19 Mr. Menegaz and Mr. Perry, welcome.

20 OPENING STATEMENT ON BEHALF OF THE EXPORTERS AND
21 IMPORTERS

22 MR. MENEGAZ: Good morning, Mr. Carpenter and
23 members of the Commission staff. My name is Greg Menegaz of
24 Sonnenschein Nath & Rosenthal. I'll be making a brief
25 opening statement on behalf of exporters/importers of the

1 subject merchandise, certain crepe and tissue paper from
2 China. I am here this morning with my colleague Steve
3 Gibson also of Sonnenschein.

4 Following my presentation Bill Perry of Garvey
5 Schubert will also make a brief presentation on behalf of
6 various exporters and importers.

7 We are also here in our capacity as counsel to
8 Cleo Inc., Crystal Creative Products and Marvel Products
9 Inc., all importers of the subject merchandise.

10 Mr. Andrew Kelly, president of Cleo and Crystal
11 will shortly offer testimony in opposition to the petition.
12 You will also hear from a number of other importers and,
13 finally, from Richard Ferrin of Hunton & Williams, who
14 represents the Chinese Chamber of Commerce and various
15 exporters as well.

16 Our clients together with the exporters and
17 importers represented here today do not believe that the
18 domestic industry making crepe and tissue products have been
19 injured or threatened with injury by reason of the Chinese
20 subject imports of the Chinese subject merchandise. The way
21 we view this case, you know, as a threshold issue we believe
22 that petitioners have blended together two distinct like
23 products, what we call bulk tissue and consumer tissue, that
24 the Commission should treat as two separate like products.
25 We submitted a letter to the Commission to this effect dated

1 March 2 in which we refer to the bulk tissue as retail
2 tissue because it is sold to retailers as the end user for
3 protective in-store wrapping of merchandise.

4 For ease of reference we and all presenters and
5 witnesses in opposition to the petition today will use the
6 term bulk tissue to refer to tissue sold to retailers for
7 protective wrapping and use the term consumer for tissue
8 sold as merchandise per se by retailers to consumers for
9 decorative wrapping of gifts and for gift bags.

10 The witnesses have samples of both bulk and
11 consumer tissue that will make these distinctions very
12 clear.

13 With respect to consumer tissue, petitioners are
14 not injured because they either did not solicit the business
15 in the first place, turned the business away, or could not
16 meet the demand in terms of capacity of peak seasonal needs
17 or in terms of offering an array of new and innovative
18 product lines that consumers increasingly seek.

19 With respect to bulk and crepe Mr. Perry is going
20 to address that. So I'm going to, you know, talk mainly
21 about the consumer tissue.

22 More specifically with respect to like products,
23 the Commission's precedent in the Gift Box case and the
24 traditional six like product factors strongly support
25 separation of bulk and consumer tissue into two like

1 products. The two products are completely different, have
2 completely different end uses and very different physical
3 characteristics as demonstrated by the samples we've brought
4 with us this morning.

5 These products are not interchangeable and, in
6 fact, are not interchanged. They are produced on different
7 machines by different workers. They are sold through
8 entirely different channels of distribution and are also
9 packaged very differently. They are perceived of
10 differently by producers and customers.

11 Moreover, bulk is sold mainly by weight in reams
12 of 480 sheets, whereas consumer is sold in sheets of various
13 sizes and numbers.

14 Accordingly, we believe the Commission should
15 analyze each industry separately, bulk tissue, consumer
16 tissue and crepe paper products. We will address in our
17 confidential brief how we think the Commission can perform
18 this evaluation based on the record of its preliminary
19 investigation.

20 With respect to the conditions of competition, our
21 client Cleo will testify to the very special conditions of
22 competition in this industry. Cleo had a long and
23 successful history of doing business with the main
24 petitioner Seaman Paper Company until Seaman refused to
25 continue to do business with Cleo. Cleo's Andy Kelly will

1 tell how Cleo eventually found another domestic source for
2 tissue but then lost that source because the upstream input
3 had been lost.

4 Importers have turned to China anyway for a
5 significant portion of their product offerings due to
6 significant differences in manufacturing operations,
7 flexibility and ability of the Chinese with respect to the
8 timing of production, product mix, new technology in
9 products, packaging which is a critical element in the
10 consumer tissue industry and in terms of, you know, getting
11 the customer to want to buy that tissue, and the reliability
12 of delivery for seasonal surges in demand, namely the end of
13 year gift giving.

14 Instead of going out and finding what the customer
15 actually wanted, petitioners were content to push what their
16 machines were best suited to make. In this respect,
17 petitioners much-touted automation was actually a hindrance
18 not an advantage in this industry.

19 To the extent that the performance of U.S.
20 producers is suffering, our clients believe that it is
21 largely self-inflicted. The major U.S. supplier for
22 converted tissue for consumer end use has refused to do
23 business with our client. And the U.S. industry in any
24 event is woefully short on conversion capacity to meet the
25 demands of suppliers like Cleo in the consumer tissue

1 industry.

2 As a typical example of petitioners' overreaching,
3 Cleo received a catalog of lost sales allegations made by
4 the petitioners and filed with the Commission. In actuality
5 these were not lost sales, these were purchase orders
6 actually placed and fulfilled in the period before Seaman
7 refused to continue to do business with our client. For
8 Seaman to then assume that the orders would have been
9 identical in the subsequent period and that they were
10 somehow lost to the Chinese imports is disingenuous at best.
11 This position fits petitioners' business tactics but does
12 not accurately describe the conditions of competition or the
13 condition of the U.S. industry, nor does it address the
14 petitioners' true competitive disadvantages in these
15 industries.

16 For all the above reasons we request that the
17 Commission make a negative finding with respect to injury
18 and threat in its preliminary determination.

19 I would like to now turn it over to Mr. Perry.

20 MR. PERRY: Good morning. My name is William
21 Perry of the law firm Garvey Schubert & Barer and I am here
22 representing some of the importers in the case.

23 The reason for this petition is clear, petitioners
24 have concentrated their efforts in a declining market, the
25 bulk tissue paper market, where they occupy more than 95

1 percent. This market segment is declining, however, as
2 consumers buy more and more from discount stores. Now the
3 U.S. industry must move into a consumer tissue segment where
4 the cost of the packaging is as important as the tissue
5 paper itself.

6 We will be arguing that bulk tissue paper and
7 consumer tissue paper are different like products. They
8 have different characteristics and uses. Bulk tissue paper
9 is sold in reams where interchangeability is the key. Bulk
10 tissue paper is sold to retail stores at the wholesale level
11 where high end department stores give out the bulk tissue
12 paper for free to protect fragile items when the consumer
13 takes the product home.

14 In direct contrast, consumer tissue paper is
15 driven by product innovation where the way the product is
16 sold is more important than the tissue paper itself.
17 Consumer tissue paper is sold in small packages, often
18 bundled with a number of other items such as ribbon and
19 wrapping paper to present an entire packaging concept to the
20 consumer.

21 Bulk tissue paper and consumer tissue paper are
22 not interchangeable. Consumers do not want to buy a ream of
23 tissue paper.

24 When the two industries are broken out the problem
25 that the U.S. tissue producers face becomes clear: the

1 domestic industry dominates the bulk tissue market but this
2 segment is steadily declining, so the U.S. tissue industry
3 has been forced to move into a segment that they simply know
4 nothing about, consumer tissue paper where product
5 innovation is the key. The U.S. tissue producers, however,
6 are way behind and instead of showing flexibility they seek
7 protection from competition by bringing the anti-dumping
8 case.

9 The reason for this complaint is simple, the U.S.
10 tissue industry wants the ITC through this anti-dumping case
11 to stop product innovation and force consumers to buy what
12 they produce. The U.S. producers do not want to produce
13 products that the consumers want to buy.

14 Thank you.

15 MR. CARPENTER: Thank you, gentlemen.

16 Would the petitioning panel come forward now
17 please.

18 MR. HARTQUIST: Thank you, Mr. Carpenter. I think
19 we have a very clear definition from both sides of the
20 distinctions that you'll hear this morning, very different
21 perceptions of how this industry works.

22 Let me begin by introducing our witnesses this
23 morning. George Jones III, president of Seaman Paper
24 Company will lead off. He'll be followed by Bill Shafer
25 III, president of Flower City Tissue Mills Company. And

1 then Ted Tepe, vice president of consumer products for
2 Seaman Paper. My colleague Kathy Cannon of Collier Shannon
3 Scott will address the legal issue, like product
4 particularly. Dr. Patrick Magrath of Georgetown Economic
5 Services will present the economic testimony.

6 With me this morning also are Adam Gordon and
7 Grace Kim of Collier Cannon Scott and Gina Beck of
8 Georgetown Economic Services.

9 And with that we will begin with Mr. Jones.

10 MR. JONES: Good morning. My name is George Jones
11 and I am the president of Seaman Paper Company of
12 Massachusetts, Inc. Seaman Paper is a third generation,
13 family owned company located in Otter River, Orange and
14 Gardner, Massachusetts. We employ over 500 people, some of
15 whom are also third generation employees.

16 My comments this morning will first focus on the
17 products and the industries that are the subject of this
18 investigation. Then I will briefly describe my company and
19 how it is that we came to be before you today.

20 As you know, this investigation covers two
21 products, tissue paper and crepe paper. As members of the
22 staff had to see -- had an opportunity to see during their
23 recent plant tour, Seaman makes both of these products at
24 our facilities. The group of petitioners in this
25 investigation includes companies that are fully integrated,

1 meaning that they make their own paper and convert that
2 paper into the products under investigation, as well as
3 converters, companies that do not make their own paper but
4 who purchase paper which they process into tissue paper
5 products of crepe paper products.

6 Seaman is a fully integrated producer. We produce
7 paper in our paper mill which has been located on the Otter
8 River in Massachusetts since the company was started in
9 1946. To make paper, wood pulp and other materials are
10 combined with colors and other chemicals based on a pertis,
11 which is the recipe for the paper being made. Once the pulp
12 mixture is blended and refined paper is made by pumping a
13 continuous slurry of wet pulp onto a moving screen called a
14 wire. Water is removed and the resulting paper is dried.

15 The dried paper is rolled into a large roll called
16 a jumbo roll. Each roll weighs up to 1,000 pounds. If any
17 printing on the paper is required, the jumbo roll is sent to
18 a subsidiary, Garlock Printing, that provides printing
19 services.

20 The production of tissue paper products and crepe
21 paper products from jumbo rolls involves different kinds of
22 operations that are performed in different facilities by
23 specialized companies that are affiliated with Seaman. Our
24 affiliated companies that convert jumbo rolls into folds or
25 reams of tissue paper products are called MBW and

1 specialized paper converting ink. I should note that our
2 subsidiary Garlock also produces reams from jumbo rolls that
3 it prints.

4 MBW was established in 1993 and specializes in
5 producing two basic types of tissue paper products.
6 Specialized was established in 1997 and, as the name
7 suggests, provides specialized services including processing
8 individual jumbo rolls that have special requirements or
9 salvaging rolls with defects.

10 We produce tissue in the form of both folds and
11 reams. Folds are tissue in the form of folded tissue sheets
12 that are sold off the rack to individual consumers in
13 discount, drug, grocery or party stores. These are examples
14 of tissue folds.

15 Packages of folded tissue are sold to and used by
16 individual consumers to do things such as wrapping presents
17 inside boxes or wrapping items in the gift bags.

18 Reams are larger packages of sheets that are sold
19 to stores that use them to wrap items purchased by
20 consumers. Reams typically contain from 300 to 500 sheets
21 of tissue and the tissue is usually not folded. You might
22 see a ream under the counter of a department store like
23 Hecht's or Bloomingdale's. We have examples of reams here
24 on the table as well.

25 Tissue folds are produced by MBW. MBW has six

1 tissue folding production lines, all of which are highly
2 automated and do everything from automatically cutting the
3 sheets to size and folding them to forming, filling and
4 sealing the finished retail bags around the folded tissue.

5 The production of folds and reams begins by
6 loading up to 30 jumbo rolls onto what is called a back
7 stand. The jumbo rolls are then simultaneously unwound and
8 fed together into the cutting machinery. Our production
9 lines include the ability to automatically feed replacement
10 rolls into the production process without stopping. The
11 machinery splits the paper and then cuts it and folds it for
12 packaging.

13 Once they have been cut and folded the sheets of
14 paper are packaged. We have automatic packaging equipment
15 that forms and seals bags around the folded tissue as it is
16 processed. This technology allows us to produce up to 180
17 packages of folded tissue per minute depending on the size
18 of the finished package.

19 The individual packages of folded tissue are then
20 packed into corrugated cartons for shipment to the customer.
21 Most of our folded tissue is produced to order and may be
22 shipped immediately after being made or stored for shipment
23 for the holiday season.

24 Tissue reams are produced by MBW, Specialized and
25 Garlock. Producing reams of tissue is similar to producing

1 folded tissue. Multiple rolls of paper are loaded onto a
2 back stand and fed into machines that measure, split and cut
3 the sheets to length. The sheets are then stacked and
4 automatically counted. The reams of tissue are wrapped in
5 plastic and packed into corrugated boxes. We produce both
6 folded tissue and reams from any color paper and from
7 printed paper.

8 As you can see from the products themselves, our
9 tissue paper products are very different from facial tissue
10 products, toilet tissue and other types of household paper
11 such as paper towels. We at Seaman do not make any of these
12 products. Simply comparing them with the products that we
13 make illustrates the significant physical differences
14 between these items and the tissue paper products in this
15 investigation.

16 As you know, they have fundamentally different end
17 uses. And if you can compare facial tissue or toilet tissue
18 to the tissue we produce you can easily see that they are
19 packaged in different ways. They are also marketed to
20 different customers in different places. Overall, these
21 products are very different from the products that are
22 included in this investigation and come from a very
23 different group of companies.

24 Let me next turn to crepe paper. Crepe paper is
25 produced by a different company called Dennecrepe which is a

1 wholly-owned subsidiary of Seaman Paper. Crepe Paper is
2 generally produced as streamers like these which are used as
3 decorations at events like parties and weddings. Most crepe
4 paper streams are 81 feet long.

5 Crepe paper has two unique features that set it
6 apart from tissue paper. First, it has a highly crinkled
7 texture that is imparted by a specialized production
8 process.

9 Second, as part of its processing, crepe paper is
10 treated with a flame retardant chemicals. Flame proofing is
11 universally required by state fire marshals given the way
12 that crepe paper is used.

13 Crepe paper is produced using different machines
14 and a different production process from tissue paper. To
15 make crepe paper individual rolls of paper are processed by
16 being unrolled and pressed onto a large rotating drum. The
17 roll that presses the paper onto the drum also saturates it
18 with the flame proofing chemicals. After rotating on the
19 drum, the paper is doctored or scraped off with a stainless
20 steel blade.

21 The paper is then fed onto the surface of a belt
22 which takes it over a steam heated dryer that is rotating at
23 a slightly slower speed than the first drum. The difference
24 in the speed of the two drums causes the wet tissue to pile
25 up or crepe on the stainless steel doctor blades. The dryer

1 can dries the crepe tissue and it is wound into jumbo rolls.

2 The jumbo rolls are taken to a winder which splits
3 and winds the crepe into individual rolls. Crepe paper
4 streamers are typically 1 3/4 inches wide and 81 feet long,
5 though they may be sold in lengths up to 500 feet.

6 They are then taken to a separate line where they
7 are automatically packaged and then are boxed for shipment.
8 Given its end use, crepe paper is sold to party supply
9 stores or the party section of discount stores.

10 Against the background of these products let me
11 tell you a bit about my company. As I mentioned before, we
12 are a family-owned and operated business and have been for
13 three generations. We started as a producer of carbonizing
14 tissue used in multi-part business forms and shifted into
15 the production of tissue paper products and then crepe paper
16 products when carbonizing declined with the advent of
17 carbonless copying. We made the shift into tissue and crepe
18 starting in the mid-1980s. And in the years since then
19 became one of the largest producers of both tissue paper and
20 crepe paper in the United States.

21 Our background in producing high quality
22 carbonizing tissue, a very competitive field, meant that we
23 were very efficient and willing to invest in new
24 technologies. Our workforce is loyal, highly trained, and
25 has skills that would be impossible to replace. We have

1 continually invested in improving our existing equipment and
2 in new equipment that allows us to be more efficient and
3 productive.

4 As I discussed a few minutes ago, we use highly
5 automated production systems. We are one of the most
6 efficient producers of tissue paper products and crepe paper
7 products in the world and should be able to successfully
8 compete with any producer in the world.

9 Our company's efficiency and ability to deliver,
10 however, have mattered little in recent years. Since 2001
11 imports of tissue paper and crepe paper products from China
12 have increased dramatically. China has always been the
13 largest source of imports for both products into the United
14 States. In terms of quality, the products that come from
15 China are the same as the products that we make and sell.

16 The Chinese producers have increased their market
17 share in the United States in one way and one way only, by
18 lowering their prices again and again, apparently without
19 regard to cost. It is especially amazing to see this
20 increased market share when you consider that the Chinese
21 producers operate equipment that is less efficient than ours
22 and that they use dramatically more labor to hand fold and
23 hand package their products.

24 The effect of these Chinese imports on Seaman and
25 on the companies producing -- and on the other companies

1 producing tissue paper and crepe paper has bene severe. We
2 have been forced to reduce our prices again and again to try
3 to keep accounts. Over the last three years we have lost
4 significant numbers of customers because we could no longer
5 afford to reduce our prices while the prices on Chinese
6 products seem to have no bottom.

7 If the market situation we have experienced in the
8 past four years continues without relief it is only a matter
9 of time before my company is faced with the same choice that
10 others have already faced. In reaction to this situation
11 several long-time U.S. producers of these products have
12 either gone out of business or stopped producing and begun
13 importing 100 percent of their products from China. Just
14 last week I found out that our largest remaining crepe
15 customer which accounts for 33 percent of our current
16 business at Dennecrepe is moving all of their business to
17 China. This is a horrible blow to Dennecrepe which is
18 already staggering from severe damage suffered during 2003.

19 My company can and will compete fairly with any
20 other producer whether from the United States or anywhere in
21 the world. The increasing volume of unfairly priced imports
22 from China that we have experienced, however, must be
23 stopped. On behalf of my company and its workers I request
24 your assistance and relief.

25 Thank you.

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1 MR. CARPENTER: Thank you, Mr. Jones. And now
2 turn to Mr. William Shafer III.

3 MR. SHAFER: Good morning, everyone.

4 My name is William F. Shafer III. I am president
5 of Flower City Tissue Mills Company. Flower City is an
6 integrated domestic producer of tissue paper products with
7 two production facilities in New York State, one in
8 Rochester and another in Fulton. We are a fourth generation
9 business which was founded by my grandfather in 1906, nearly
10 100 years ago. I have been part of this business since 1956
11 and have served as president since the death of my father in
12 1981.

13 As an aside, he worked at the mill full time for
14 62 years.

15 Prior to 1950 Flower City produced only white
16 tissue paper products. Since that time, however, we have
17 grown and expanded the product line to include over 70
18 different colors and many standard and custom prints. Most
19 of our tissue paper products are either sold as folds or
20 reams and are identical to those being imported from China.

21 I am very proud of my company's growth and success
22 throughout the years but I am here today because my company
23 is being severely injured and her very existence is being
24 threatened by dumped imports from China.

25 Since 2001 imports of tissue paper products from

1 China have skyrocketed and are being sold in the U.S. market
2 at extremely low prices. Flower City is competing head to
3 head with imports from China on a daily basis. And we are
4 struggling to maintain our sales of customers, and in some
5 cases former customers understand that they have an
6 opportunity to obtain an identical product for a much lower
7 price from China. As a result, they are using the
8 availability of low price imports from China as a way to
9 force Flower City as well as other domestic producers to
10 lower their prices.

11 And when we do receive an order it is usually for
12 a small quantity and is probably being placed with us on a
13 fill-in basis, perhaps because the boat did not arrive on
14 time or that there was an unanticipated demand for the
15 product with no inventory on this side of the world.

16 Flower City has lowered its prices on certain
17 items in an attempt to maintain volume and avoid losing
18 customers. In one instance during the past year we were
19 able to lower the prices enough to retain the customer but
20 we lost substantial revenue on the contract. In most cases,
21 however, we have lost sales simply because we could not meet
22 the extremely low prices offered by the Chinese imports.

23 For example, in '01 one of our largest customers
24 started purchasing imports from China and we lost
25 approximately 1.5 million units in volume. This loss

1 translated into over one-half million dollars for Flower
2 City and was a devastating blow to our financial
3 performance.

4 We also lost over 150,000 units in volume in
5 January '03 when another customer stated that although they
6 would like to continue doing business with us they simply
7 could not ignore Chinese prices.

8 Likewise, in January '03 a third customer turned
9 to low priced imports from China for its purchases of
10 printed tissue paper. And we had no advance warning that
11 they were going to go elsewhere. Almost 100,000 units in
12 sales were lost. Again the customer told us they could not
13 resist the low priced Chinese products.

14 We lost a fourth large customer who used to
15 purchase printed tissue paper with different animal designs
16 such as leopard, tiger, zebra patterns that were distributed
17 by a well known chain of retail stores. This customer
18 stopped purchasing from us in '03 and we have since found
19 out that the product is still being sold at their stores.
20 The customer began importing these printed tissue paper
21 products from China because the Chinese prices were
22 significantly lower than the prices we could offer. The
23 designs were nearly identical to ours and were packaged in
24 the similar arrangement so that the package appeared to be
25 the same as the original product. When I was a youngster

1 and someone imitated someone else the popular refrain was
2 always "copy cat, copy cat."

3 The combination of lower prices, reduced sales
4 volume and a higher fixed cost has had a very negative
5 effect on our bottom line. As indicated in our
6 questionnaire response, our profitability has deteriorated.
7 In addition, we have not been able to make any significant
8 capital investments in recent years. Our last capital
9 investment of any significance was in 1999 when we invested
10 over \$700,000 in packaging equipment designed to convert
11 jumbo rolls into packaged folds.

12 In '01, however, this main customer who purchases
13 product decided to outsource product to China because of the
14 extremely low prices offered by the Chinese imports. As a
15 result we are no longer running this machine full time, thus
16 we have not been able to earn an adequate return on this
17 capital investment. If these trends continue, Flower City's
18 existence will be in serious jeopardy. Relief is needed for
19 our industry to stop the unfair pricing and to allow us to
20 return to a healthy level of profitability.

21 I am very proud of the excellent product that my
22 company produces, and there is no doubt that we can compete
23 with any import if it is fairly priced. But we cannot
24 compete when the competition is unfair and when the ability
25 to lower prices by Chinese producers is apparently without

1 limit. Our continued existence as a manufacturer is
2 dependent on the imposition of anti-dumping duties against
3 imports from China.

4 Thank you very much.

5 MR. HARTQUIST: Thank you, Mr. Shafer.

6 The next witness is Ted Tepe of Seaman Paper
7 Company.

8 MR. TEPE: Good morning. Mr. Carpenter and
9 Commission Staff, good morning.

10 My name is Ted Tepe. I'm vice president of
11 consumer products at the Seaman Paper Company of
12 Massachusetts, a position I've held since April 1998. Prior
13 to becoming vice president at Seaman I worked for Crystal
14 Tissue, the largest supplier of tissue paper in the U.S.
15 market in the 1980s and the 1990s. Crystal was established
16 in 1894. The name Crystal was synonymous with tissue paper
17 just as the name Kleenex is with facial tissue.

18 In the 13 years I worked at Crystal Tissue my job
19 responsibilities included assistant consumer product manager
20 and marketing manager for four years, business manager of
21 consumer products for two years, vice president of marketing
22 in all divisions for two years, and vice president of retail
23 packaging for a year. As part of my responsibilities at
24 Crystal Tissue I routinely and frequently quoted prices of
25 tissue paper products to customers, developed sales

1 forecasts by -- and developed sales forecasts by individual
2 items. Additionally, I set up the billed materials and
3 ordered the components from outside manufacturers necessary
4 to complete the assembly of the finished product.

5 From '97 to 1998 I quoted prices on all retail
6 packaging products to customers and also developed sales
7 forecasts for each item. From 1995 to 1998 I developed
8 detailed business plans annually for each customer, and in
9 some cases for each customer by item.

10 I spent most of my career in the tissue industry
11 and have watched, to my dismay, imports from China grow in
12 this market during the past several years. Crystal was sold
13 in October 2002. They were sold because they could no
14 longer compete against the low Chinese prices for tissue
15 paper. Crystal was purchased by Cleo which was Crystal's
16 largest competitor.

17 Cleo has been a significant importer of tissue
18 paper from China since 2001. Prior to 2001 Seaman was
19 Cleo's sole supplier of tissue paper folds. Then in
20 December 2000, Cleo informed us that they would purchase
21 from the source with the lowest price. And that source was
22 China. Cleo has imported tissue paper folds entirely from
23 China since 2001, August 2001.

24 Seaman tried everything it could to prevent
25 imports from China from taking our business and displacing

1 U.S. production of tissue paper. In July 2003 Seaman
2 purchased the tissuing portion of Cleo's business, recently
3 purchased from Crystal, in order to prevent Cleo from
4 importing even more tissue from China. Cleo, however, had
5 closed its entire converting operation by October of 2003
6 and began importing 100 percent of their tissue needs from
7 China.

8 And Cleo is not the only U.S. company that has
9 sent U.S. production -- that has seen U.S. production
10 replaced by imports in recent years. In 2002 another large
11 U.S. producer of tissue and purchaser of crepe paper
12 products was approved by an importer of low priced products
13 from China. That company decided it also could not produce
14 tissue in the United States at a cost low enough to compete
15 with the low priced imports from China. In an effort to
16 keep the production in the United States Seaman negotiated
17 an agreement to purchase their old tissue folding and
18 packaging equipment in exchange for a contract to supply a
19 percentage of their tissue requirements at a reduced price.
20 This contract expires within one year and we believe that
21 all of their purchases will go to China at that time if the
22 Chinese prices continue, the low Chinese prices continue.

23 This company has already shifted their printed
24 tissue fold business to China where they have received lower
25 prices. This shift resulted in a loss of over a million

1 dollars in business for Seaman paper and caused the shutdown
2 of one of our folding machines and reduced hours on another
3 folding machine. Consequently eight jobs were lost on the
4 shut down machine and four jobs were lost on the eliminated
5 shift.

6 This company has also moved their solid colored
7 crepe business to China.

8 When imports from China started invading the U.S.
9 markets at such low prices there was nothing to prevent them
10 from capturing U.S. producers' sales because there is no
11 unique difference between the U.S. produced tissue and crepe
12 paper and the Chinese product. Based on my career
13 experience in this industry I can state that from a
14 consumer's point of view there is nothing in the appearance
15 or uses of the tissue paper or crepe paper which would
16 differentiate between products produced in the United States
17 and products produced in China.

18 And now I should emphasize that many of the
19 intricate designs, colors and specifications of product that
20 you see were not developed by our company or other tissue
21 companies or crepe paper producers but are dictated by our
22 customers. Cleo, for example, would develop specific
23 designs which we would manufacture. The Chinese producers
24 can and do manufacture these same designs so we are not
25 competing based on artistic design offerings. Therefore,

1 the imported and domestic products are interchangeable and
2 directly competitive in the U.S. markets.

3 Here's several examples where we have printed a
4 design and the Chinese have printed the same design.
5 There's a standard design and a snowman design printed at
6 our Garlock operation and then this was found in 2003
7 Christmas, the same design that's made in China. It's the
8 identical design, so.

9 While there are not physical differences between
10 us and the Chinese produced tissue and crepe paper, what I
11 can tell you is that there are differences in prices offered
12 by the domestic market between U.S. produced -- offered to
13 the domestic market between the U.S. produced tissue and
14 crepe and the Chinese product. That is why we've been able
15 to identify so many lost sales to low-priced imports.

16 Our three largest accounts for tissue paper and
17 crepe paper now import from China. Over the 20 years I have
18 spent in the tissue paper industry our customers have
19 increased their purchasing power and the major criterion for
20 their purchasing decision is price. Imported and U.S.
21 produced tissue paper and crepe paper are sold through the
22 same channels of distribution. Tissue paper and crepe paper
23 are imported from China by distributors that resell to
24 retailers. And several large retailers import directly as
25 well.

1 These national retailers as a group have increased
2 their market share of tissue paper and crepe paper sales
3 over the past several years. The increased share of the top
4 retailers combined with the high competition among them and
5 the development of direct import purchases by large
6 retailers have intensified the importance of price in the
7 market. Price is by far the single most important selling
8 tool in promoting tissue paper and crepe paper sales.

9 It is unimportant to the retailers whether they
10 purchase tissue paper and crepe paper that are produced
11 domestically or by a foreign manufacturer as long as the
12 products meet their price target. And the lowest price wins
13 the sale. As a result, sales of imported tissue and crepe
14 paper at ever lower prices have negatively affected both
15 U.S. producers' sales and prices and their resulting
16 profits. We can no longer afford to survive as a business
17 when we are losing sales and revenue at this pace. The
18 impact of the low Chinese prices and the lost volume to
19 Chinese imports is obvious in our falling bottom line.

20 I appreciate very much the opportunity to appear
21 before you today and hope that my testimony is helpful.
22 Thank you.

23 MR. HARTQUIST: Thank you, Mr. Tepe.

24 We'll now turn to Kathy Cannon.

25 MS. CANNON: Good morning. I am Kathleen Cannon

1 of Collier Shannon Scott. This morning I would like to
2 address two legal issues presented in this case, the
3 definitions of the domestic like product and the industry.

4 As you know, the definition of the domestic like
5 product must begin with examining the scope of the case.
6 The scope of this case consists of certain tissue paper
7 products and crepe paper products. The covered tissue paper
8 is cut to length sheets of a lightweight paper in a range of
9 weights, grades, dimensions, colors and designs.

10 The crepe paper subject to this case is also made
11 of a lightweight paper but that paper is creped, usually
12 flame proofed and typically sold as streamers, as you see
13 from the samples.

14 Applying the traditional 7-factor analysis the
15 Commission uses to define the like product to the facts of
16 this case we believe that certain tissue paper and crepe
17 paper products comprise two separate domestic like products
18 and industries. The petition sets forth a summary of the
19 like product factors and the differences between tissue
20 paper and crepe paper with respect to each factor.

21 Essentially, tissue paper is a thin, lightweight
22 sheets of paper that is sold for use in wrapping objects or
23 gifts. Tissue paper is functional in protecting the wrapped
24 object and may be decorative as well. As the Commission
25 staff observed during a recent plant tour, tissue paper

1 sheets are manufactured in separate facilities using
2 different equipment and different employees from those used
3 to produce crepe paper.

4 Crepe paper by contrast is primarily used as
5 decorations for parties. It is physically different from
6 tissue paper in that it has a wrinkled surface resulting
7 from the creping process, is flame proofed and is generally
8 sold as a streamer and not as a flat sheet. These
9 differences in the physical characteristics, uses and
10 production processes among other factors differentiate
11 tissue paper from crepe paper.

12 In addition to determining whether tissue paper
13 and crepe paper are one or two like products, the Commission
14 may also consider whether to expand the domestic like
15 product definitions to include other products or subdivide
16 these products into more than two like products. There is
17 no legal or factual support either for expanding the like
18 product definition beyond the scope of this case or
19 subdividing it further.

20 Other types of paper products that have been
21 excluded from this case, such as facial tissue, are very
22 different products. As Mr. Jones demonstrated, facial
23 tissue has a different texture from these tissue products,
24 is packaged differently and is manufactured by different
25 U.S. companies in different facilities with different

1 employees from those used to manufacture the subject tissue
2 paper.

3 Perhaps most telling, facial tissue is not used
4 for the same purposes and is not interchangeable with
5 subject tissue paper. You would no more put facial tissue
6 into a gift bag to wrap your present than you would use this
7 tissue to blow your nose. The differences between the other
8 types of tissue paper and crepe paper are even more obvious.

9 Nor is there any justification for subdividing
10 tissue paper and crepe paper further into other products.
11 Various sizes, colors, weights and designs of the tissue
12 paper simply reflect a continuum of a single like product,
13 as the Commission has seen in many cases.

14 Counsel for Cleo and Crystal submitted a letter to
15 the Commission requesting you to segregate tissue paper sold
16 to retailers, what they now call bulk tissue paper, from
17 tissue paper sold to consumers as separate like product.
18 This request should be rejected.

19 First, different channels of distribution of a
20 product do not provide a strong basis in and of itself to
21 distinguish a product. Many products are sold through
22 multiple channels of distribution.

23 Second, Cleo's attempt to differentiate these
24 products based on physical characteristics or packaging is
25 without merit. While Cleo characterizes tissue sold to

1 retailers as "plain or with only a relatively
2 unsophisticated pattern," in fact much of the tissue paper
3 sold to retailers is customized with the logo of the
4 retailer such as the tissue paper used by Crate and Barrel;
5 Bed, Bath & Beyond; or Victoria's Secret. And the tissue
6 paper that is sold in reams is also printed, as the sample
7 that we brought with us today shows and may be colored as
8 well.

9 Conversely, a substantial amount of tissue paper
10 sold to consumer is plain white, as samples that we brought
11 also indicate.

12 Nor is there a difference in the sheet size
13 between the tissue in reams and that in folds as Cleo
14 claims. And I think you can see that from some of the packs
15 we have as well where the exact same size and dimensions are
16 being sold both in folds and in reams.

17 Third, there is no bright line between retail and
18 consumer sales as club packs, what are called club packs of
19 tissue paper demonstrate. And we brought some samples of
20 this too. These club packs of folded, packaged tissue paper
21 consist of 120 sheets, the one on the left, and 350 sheets,
22 somewhere between your typical consumer pack of folds and a
23 ream of tissue paper.

24 A package of folds, the consumer packs they're
25 talking about, typically range from 3 to 120 sheets. A ream

1 is roughly 100 to 500 sheets. And the club packs generally
2 range from 100 to 400 sheets. So you see a complete overlap
3 and blurring of the packaging sizes.

4 A club pack also is sold at mass merchandisers to
5 both individual consumers and small business retailers,
6 further blurring the distinction they are attempting to make
7 between the two.

8 And, fourth, the folding gift boxes case on which
9 Cleo relies is inapposite. Give-away gift boxes were
10 excluded from the scope of that case. But give-away tissue
11 paper that the domestic industry sells to various consumers
12 who in turn give it away is included in the scope of this
13 case.

14 Based on two like product definitions of tissue
15 paper products and crepe paper products that mirrored scope
16 language, they are two domestic industries consisting of the
17 producers of these products. We have identified in the
18 petition those U.S. companies that to the best of our
19 knowledge produced these products in the United States in
20 2001, 2002 or 2003. As you heard Mr. Tepe discuss,
21 significant domestic producers of tissue paper in 2001 have
22 become major importers of tissue paper from China over the
23 period of investigation.

24 One issue that will arise in defining the U.S.
25 industry in this case is whether the Commission should

1 exercise its discretion to exclude from the industry certain
2 U.S. producers that import subject merchandise. I am
3 constrained to discuss that issue in detail in this public
4 forum but I will address it further in our brief.

5 That concludes my statement. Thank you.

6 MR. HARTQUIST: Thank you, Kathy.

7 And we'll conclude this morning with Dr. Patrick
8 Magrath of Georgetown Economic Services. Pat.

9 MR. MAGRATH: Good morning. Does this microphone
10 work?

11 Can I have a time check please?

12 MR. CARPENTER: You have about 24 minutes
13 remaining.

14 MR. MAGRATH: Good morning member of the
15 Commission, Commission staff, ladies and gentlemen. I am
16 Patrick Magrath of Georgetown Economic Services and with me
17 is Gina Beck, also with GES. We represent domestic
18 petitioners in this case.

19 Although the actual injury suffered by U.S.
20 producers of tissue and crepe paper and their workers due to
21 unfair imports from China is anything but routine to them,
22 and we don't mean to minimize the negative impacts in human
23 terms, what we have in the trade law context is a textbook
24 case of injury by reason of unfair imports. There are no
25 wrinkles in this case. There are no curveballs. It is very

1 simple and straightforward analysis we will offer today
2 based on a very straightforward, unambiguous record that is
3 already being formed by the preliminary responses to your
4 questionnaire.

5 This is Ms. Beck's and my second consumer products
6 case before the Commission this year. And that has
7 advantages. We're talking about products that we are all
8 familiar with, products we have all used and, importantly,
9 products that we can actually witness being offered in the
10 marketplace and sold in the marketplace. This familiarity
11 and transparency has distinct advantages, especially when
12 discussing the market context, termed the conditions of
13 competition in the statute against which volume price and
14 impact of imports are assessed.

15 And given what I already heard from the
16 respondents today, it would have distinct disadvantages for
17 respondent's theory of this case.

18 For example, one market factor is that there is a
19 high degree of overlap between domestic and Chinese tissue
20 and crepe paper in terms of interchangeability, quality and
21 availability. To very this point don't take our word for
22 it, all a staff member or commissioner has to do is visit a
23 Target, a Wal-mart, a CVS Drug, a Party City, any number of
24 retail outlets and party stores right here in our area where
25 one can readily see that both the imported and domestic

1 products are offered in a wide variety of colors, patterns,
2 finishes, and package sizes.

3 You will see that the Chinese white is just as
4 white as the U.S. produced white. The reds are just a red.
5 The patterns just as sharply drawn.

6 We urge you to make these comparisons at your
7 local mall. The nearest Target store is probably the one
8 over there in Potomac Yards, across the river about two
9 miles away in Virginia.

10 We also ask you to draw on your own experience as
11 a consumer who has purchased decorative tissue paper and
12 crepe paper or received gifts using these materials in
13 analyzing such respondent-generated issues as whether you
14 can wrap gifts with Kleenex or, as Ms. Cannon observed,
15 whether you can blow your nose with decorative tissue paper.

16 In making these investigations you may or may not
17 find U.S. and Chinese tissue and crepe paper side by side in
18 any particular retail outlet. My personal snooping the last
19 couple weeks revealed that currently at Wal-mart both
20 domestic and Chinese tissue are offered. But the products
21 in the Target store on Route 50 in Falls Church appear to be
22 100 percent from China.

23 But certainly the two products compete keenly with
24 one another even in different stores just as retail outlets
25 Wal-mart and Target themselves compete keenly with each

1 other.

2 In short, your personal experiences and current
3 comparisons of the domestic and imported products together
4 with the questionnaire data can provide the ITC with a great
5 deal of information on U.S. and Chinese products'
6 interchangeability, quality overlap and channels of
7 distribution and the importance of price.

8 Another condition of competition, and once again
9 simplifying this case and serving to put into focus the
10 cause of the U.S. industry's injury, is that there are very
11 few if any non-subject imports in the market. Hence, the
12 significant decline and inadequate levels in the trade and
13 financial information being reported to you on these
14 questionnaire responses cannot be blamed on the growth in
15 imports from countries other than China. As stated above,
16 the data being developed on your questionnaires are
17 consistent and they are unambiguous.

18 We are dealing here with two separate like
19 products and the U.S. industries producing these products.
20 So the data as they relate to tissue and crepe paper will
21 have to be discussed separately. The significant declines
22 in the trade and financial indicators in both industries,
23 however, are testimony of what the ITC is increasingly
24 seeing in these Title VII cases: swiftly developing and
25 significant injury by reason of imports from China.

1 I will now discuss the tissue paper market. The
2 tissue paper product data presented in the petition show
3 that subject imports increased significantly over the period
4 by well over 200 percent. From 2001 to 2003 China's market
5 share more than tripled to roughly a third of the U.S.
6 market.

7 In the tissue paper product our compiling of the
8 domestic industry's data received as of this weekend showed
9 U.S. production to have declined by about 15 percent as
10 increases of production due to consolidation reported by
11 some producers failed to compensate for the overall volume
12 decline. The quantity of domestic shipments fell by nearly
13 20 percent resulting in a substantial rise in end of period
14 inventories, in other words, U.S. producers not being able
15 to sell the product they have already produced.

16 The number of workers producing certain tissue
17 paper fell as well over the period 2000 - 2003 by 6
18 percent.

19 This deterioration in the trade data weighed
20 heavily on the financial data reported because the efficient
21 way to produce tissue paper products is to run plant and
22 equipment 24 hours a day, 7 days a week with minimal down
23 time for maintenance. The value of net sales of U.S.
24 producers of tissue paper declined each year by 30 percent
25 over the period. Although costs of goods sold also

1 declined, the cost of goods sold as a share of sales
2 increased, thus U.S. producers' selling prices declined more
3 than costs and profits fell.

4 On a net operating basis profits declined in each
5 year of the period of investigation ending in an operating
6 loss by the most recent period 2003. As a share of sales
7 the data we have show the industry's operating profit
8 declining from 4 percent of net sales in 2001 to barely
9 above break even, that is less than 1 percent in 2002 and
10 declining further to an operating loss on sales in 2003.

11 We conclude that although the precise levels of
12 some of the indicia might change as these preliminary
13 responses are finalized, the levels in trends in these data
14 are clear, they are injurious and they manifest themselves
15 across all producers in the database. In fact, if these
16 already dismal results do change once producers report all
17 their data they are likely to change for the worse, as an
18 important producer who is known to have experienced
19 shrinking market share and financial difficulty has yet to
20 report the data, or at least we don't have it.

21 The responses report declines in U.S. prices for
22 all representative tissue paper products on which you have
23 gathered data as well. These price declines tie back to the
24 injurious sales and financial data reported by U.S.
25 producers.

1 Finally, we urge the Commission staff to analyze
2 and investigate as many of the numerous lost sales and lost
3 revenue examples as possible in this preliminary phase.
4 Again, we are helped by the fact that these products are
5 consumer products and because purchasers generally buy on a
6 national basis.

7 Sales in the tissue and crepe paper market are
8 transparent. If the domestic industry loses an account to a
9 Dollar Store or Party City sales representatives have only
10 to visit the local stores to find out who got that business,
11 if they didn't know already. At these stores visual
12 inspection shows the country of origin, it's clearly marked
13 on the plastic bag or the band. The multitude of lost sales
14 and lost revenue examples detailed by petitioners are solid
15 corroboration of our claims of both the volume and price
16 impact of imports from China.

17 Now I will discuss crepe paper. As for crepe
18 paper, U.S. producers have also reported declines and
19 generally inadequate levels in terms of production,
20 shipments, capacity utilization and increased inventories
21 again. These data have worsened considerably recently with
22 Seaman affiliate Dennecrepe experiencing periodic downtime
23 last December, January and February, last month.

24 Due to confidentiality concerns we can only speak
25 in very general terms. petitioners estimate and the ITC

1 import questionnaire data will corroborate the volume of
2 imports from China is increasing dramatically over the 2001
3 to 2003 period, perhaps as much as threefold. Chinese
4 import penetration is estimated to have increased from 18
5 percent in 2001 to almost one-half of the U.S. market, 47
6 percent in 2003.

7 Other imports, again if there are any, continue at
8 very low levels.

9 Thus assuming stable demand is doubling to
10 tripling of imports from China comes directly from U.S.
11 producers' market share of crepe paper. The staff is urged
12 to analyze in particular the level and trends in capacity
13 utilization and inventories as evidence of the direct
14 injurious impact of import volume.

15 Pricing data on crepe paper streamers are also
16 confidential but generally show declines over the period.
17 The low prices offered by imports of the Chinese product
18 together with the large volume of imports of this product in
19 the U.S. market are the cause of these price declines.

20 Finally, the impact of crepe paper imports from
21 China is similar to that of imports of tissue paper. All
22 employment variables, number of workers, hours worked, their
23 wages have shown precipitous declines despite significant
24 achievements by U.S. producers in cutting costs, both direct
25 and indirect. Sales values fell even faster over the period

1 than costs, resulting in sharp declines in profit.

2 The staff is urged to look at the key data on
3 operating profitability in aggregate and by individual U.S.
4 producers to appreciate the sudden and severe injury cause
5 by the increase in crepe paper imports from China. Again,
6 as with tissue paper, this injurious impact is made specific
7 with the inclusion on the record of several, and some of
8 them you will note very large examples of sales lost,
9 revenue lost by the switch of major party store type chains
10 to imports of crepe paper from China.

11 Now as to threat of injury. Mr. Hartquist says we
12 don't think this case will be determined on threat.

13 Finally, we wish to point out that in addition to
14 present material injury, there will be a continued threat of
15 even deeper injury unless additional duties are imposed on
16 the imports of tissue and crepe paper from China.

17 First, our estimates of import volumes and market
18 shares shows strong increases in those data, especially in
19 2003 in which imports from China for both tissue and crepe
20 paper rose significantly and import market share tripled for
21 tissue paper and more than doubled for crepe. Such large
22 and sudden increases in import volume and market share are
23 typical of what the Commission has seen in other cases
24 involving China which has a vast capacity and labor force
25 with which to produce these products.

1 It is also a characteristic of the channels of
2 distribution for these products in the United States. If an
3 importer can just capture the national account of a Wal-mart
4 or a Target or another of the relatively few large
5 distributors and party stores whose purchases account for
6 large chunks of the tissue paper and crepe market they can
7 idle a large share of U.S. plant and equipment almost
8 overnight. We refer you again to the capital intensive 24/7
9 nature of the production process and the examples of lost
10 sales and lost revenue reported by Seaman and other U.S.
11 producers who reference the sheer size and value of some of
12 these purchases lost to China when just one of these large
13 stores, one of these large distributors goes to imports.

14 Finally, a review of the foreign producer
15 questionnaire responses is interesting if not ironic. Of
16 course, at this early stage of the investigation many
17 foreign producers have yet to respond to the Commission's
18 requests and some of the submitted responses are far from
19 complete. But of those that have been released to us two
20 facts stand out. First, the number of Chinese companies who
21 have not exported to the U.S. market until 2003, the most
22 recent period, but in 2003 suddenly again reported
23 significant shipments.

24 And, second, the statements made by several of
25 these foreign producers that exports to the United States

1 are projected to decrease due to the filing of this case or
2 anticipated dumping duties arising from this case. Besides
3 sort of a tacit admission of guilt there, such statements
4 immediately prompt a scenario, the converse scenario of what
5 would happen if this case were terminated at this stage or
6 if dumping duties were not applied what would their behavior
7 be?

8 In any case, we urge the staff to continue to
9 gather foreign producer questionnaire responses and to
10 require complete responses.

11 Thank you for your attention. And Gina and I
12 would be pleased to answer questions.

13 MR. HARTQUIST: Mr. Carpenter, if it would be
14 helpful we would be pleased to bring forward copies of the
15 samples that we brought this morning so the staff can
16 examine them and perhaps refer to them during the Q&A
17 session. Would you like us to do that?

18 MR. CARPENTER: Yes, I think that would be helpful
19 if you could do that.

20 MR. HARTQUIST: Very good. Adam, thank you.

21 That completes our testimony this morning and
22 we'll be pleased to respond to your questions.

23 MR. CARPENTER: Thank you very much, ladies and
24 gentlemen, for your testimony. And we will begin the staff
25 questions with Mr. Ruggles.

1 MR. RUGGLES: Good morning. Fred Ruggles, Office
2 of Investigations. Thank you for your testimony this
3 morning.

4 Just a couple quick questions. One, can you
5 identify to us when you first saw the Chinese imports
6 hitting your market with an impact that basically made you
7 stand up and say, All right, what's going on?

8 MR. TEPE: I would depend on the definition of
9 impact I guess. They'd been around since '94. We went and
10 investigated, you know, what they had to offer at that
11 point. The quality was not there and the pricing was low
12 but not that low. It took about four or five years for the
13 quality to get where it needed to be and for the pricing to
14 become even lower. So maybe '99, 2000 that, you know, we
15 saw it on a regular basis.

16 And at that point it pretty much froze us as far
17 as price. You know, we couldn't do anything because the
18 threat was, well, now we'll switch to China.

19 Bigger impact was probably when one of our largest
20 customers, which was 2000, December 2000 said, you know,
21 we're going to switch this business to the lowest price.
22 And the lowest price is China. That was December 2000, and
23 that's when we realized that, you know, we weren't going to
24 be able to hold on to our customers, would be a matter of
25 time.

1 MR. RUGGLES: That's both tissue and crepe paper?

2 MR. TEPE: That particular one was tissue paper.

3 Crepe I think happened the next December when we lost
4 through our customer I think the largest, the largest
5 retailer of crepe paper switched in December 2001 when we
6 got the news of that. And that was we knew things were
7 turning around at that point for the worse.

8 MR. RUGGLES: And when you set up your accounts do
9 you set up say November of the year you're going to sell
10 them or do you set them up a year in advance? And if so,
11 how do you go about getting your accounts with the different
12 retailers and wholesalers?

13 MR. TEPE: You're talking about pricing?

14 MR. RUGGLES: Well, if the product from China
15 comes in does it come in throughout the year or does it come
16 in as a certain time? As a result do you when you're
17 marketing your product do you do it at a certain time or do
18 you it continual? How?

19 MR. TEPE: Different customers work differently
20 but generally kind of the Christmas business is worked, you
21 know, from actually late the year prior up through it's even
22 going on now. And it's being finalized now for shipment
23 August through all the way through Thanksgiving.

24 The other part of the business is more the
25 everyday, and that has a tendency to work the second half of

1 the year transitioning to a change in the first quarter of
2 the next year. So generally what we're doing is we're
3 committing to a price for one everyday season and one
4 Christmas season. And the everyday shipments, you know, can
5 be weekly throughout the year.

6 MR. RUGGLES: And do you compete with the Chinese
7 say in Europe or in Asia itself or is this just a strictly
8 U.S. competition?

9 MR. TEPE: We go to Frankfurt and Birmingham,
10 Frankfurt, Germany and Birmingham, England every year and
11 put on a show over there, go to their shows and have a
12 decent market share over there. And starting the year
13 before last, that would have been January '02 is when we
14 started noticing that we were competing with the Chinese in
15 Europe. So, yes, we are.

16 MR. RUGGLES: That's all I have at this point.

17 MR. JONES: And as far as, excuse me, as far as
18 crepe tissue we really the only country we've ever exported
19 to I think is Canada. And China came into that country two
20 or three years ago, we lost all our business up there.

21 MR. CARPENTER: We'll turn next to Mr. Diehl of
22 the general counsel's office.

23 MR. DIEHL: Good morning. I'm Michael Diehl for
24 the General Counsel's Office.

25 Please bear with me if the questions I ask are

1 very basic or if they're things that you've already said or
2 written in the petition but I tend to do this anyway. Do I
3 understand correctly that Seaman makes both tissue paper and
4 crepe paper?

5 MR. TEPE: Correct.

6 MR. DIEHL: Okay. And is that the case for Flower
7 City?

8 MR. SHAFER: No. We make only the tissue paper,
9 no crepe.

10 MR. DIEHL: Okay. Can you tell me about the jumbo
11 rolls that are prepared for crepe paper purposes and those
12 that are prepared for tissue paper purposes, are the jumbo
13 rolls the same or are they different? I guess I'd like to
14 ask Mr. Jones to respond.

15 MR. JONES: There's differences in the crepe
16 tissue rolls. We have to put sizing into them because it's
17 a wet process. And if we don't put sizing in those when we
18 apply the flame proof solutions the sheet will disintegrate.
19 So we do have to make them separately.

20 MR. DIEHL: You used the word sizing. Can you
21 just explain what that is?

22 MR. JONES: Well, sizing is what keeps the paper
23 from wetting out so if you spill some coffee on your bond
24 paper it will bead up. And that's the sizing in the paper
25 that keeps your ink from feathering out.

1 MR. DIEHL: Okay.

2 MR. JONES: And it also holds out a little bit of
3 moisture in the crepe tissue.

4 MR. DIEHL: Okay. Can you spell the word? Again
5 I get very basic but this way the transcript will read
6 correctly.

7 MR. JONES: S-I-Z-I-N-G.

8 MR. DIEHL: Okay, I should have known that. All
9 right, thank you.

10 When, I want to ask again, Mr. Jones and Mr.
11 Shafer, when you're prepared the jumbo rolls for tissue
12 paper that will be sold to retailers or that will end up
13 going to consumers in the end is there any difference in the
14 jumbo roll and along those lines?

15 MR. JONES: The question is if we can use a jumbo
16 roll for retail and for consumers the answer is yes, we can
17 use them for both and do.

18 MR. DIEHL: Okay. Are there times though when the
19 jumbo rolls are distinct?

20 MR. JONES: The only distinction would be made on
21 the sizes which for different converting equipment. But we
22 do maintain an inventory of our different colored roll stock
23 which could go to either application.

24 MR. DIEHL: Okay. The difference is in the
25 converting process. But for the jumbo rolls through would

1 be, could be identical and then if it's cutting down the
2 jumbo roll before it's converted that's where you might
3 introduce a difference?

4 MR. JONES: Yes.

5 MR. DIEHL: Okay. Is that the same for Flower
6 City?

7 MR. SHAFER: Yes, it is.

8 MR. DIEHL: Okay. If I'm thinking about the
9 production of tissue paper how much of the value is added by
10 the process of creating a jumbo roll and how much -- well, I
11 shouldn't say the value -- how much of the cost goes into
12 making the jumbo roll and roughly how much of the cost goes
13 into the converting process? And by the way, if any of my
14 questions go into data that you feel is business proprietary
15 you can always decline to answer and respond to that in your
16 post-hearing, post-conference submission.

17 MR. JONES: Why don't we address that in the
18 brief. But I can say that a lot depends on the actual
19 product that you're making. So if it's a 4 by 10 fold with
20 five sheets of tissue the converting will be a significant
21 portion of the total cost. And if it's a big ream of tissue
22 it will be less.

23 MR. DIEHL: Okay.

24 MR. JONES: Because there's more paper for that.

25 MR. DIEHL: Yeah, if that could be addressed that

1 would be helpful.

2 MR. HARTQUIST: Would you like us to pick some
3 examples and give you cost data for different types of folds
4 or?

5 MR. DIEHL: I don't think I want to burden you
6 with a very detailed request but just I would like a general
7 sense of area we talking 10 percent added to cost or 25
8 percent? And I know it may vary by product and I know it
9 may be confidential by company. But just so I have a rough
10 notion of where the costs are coming in the production
11 process.

12 MR. HARTQUIST: All right. I think it might be
13 most illustrative to give you a range for various types of
14 products the relative costs for the jumbo rolls versus the
15 conversion process.

16 MR. DIEHL: Okay. That would get at what I'm
17 looking for.

18 MR. HARTQUIST: Fine. We'll do that.

19 MR. DIEHL: Okay, thank you.

20 Mr. Hartquist, I made a note when you were
21 speaking before that some of the domestic producers have
22 shifted to importing. If there's any related parties issues
23 in the investigation, if you could address those in your
24 post-conference submission I would appreciate that.

25 MR. HARTQUIST: Yes, we would be pleased to do

1 that.

2 MR. DIEHL: Okay. Also, I don't have a sense of
3 the relative size of the retail and the consumer markets for
4 tissue, for tissue paper. Could anybody characterize the
5 rough relative sizes of the two markets?

6 MR. TEPE: I kind of hate to speak without going
7 to the numbers but I can tell you our sales dollars, which
8 you're probably more interested in area, but our sales
9 dollars are about the same.

10 MR. DIEHL: Okay.

11 MR. TEPE: For our particular company.

12 MR. DIEHL: Okay, thank you.

13 MR. TEPE: We do have an estimate we can give you
14 but I don't have it available.

15 MR. DIEHL: Okay. Mr. Jones, when you were
16 describing your company's operations I think you said that
17 you're an integrated producer and you make the jumbo rolls.
18 And then does your company perform the converting or I think
19 you said maybe affiliates perform the converting operations?

20 MR. JONES: Yes, through affiliated companies that
21 we established to do that.

22 MR. DIEHL: Okay. Ms. Cannon, I'd like you to
23 think about if there are any issues as to whether a
24 particular producer that only makes jumbo rolls whether that
25 should be considered by the Commission to be, you know,

1 production of the like product if they're not also doing the
2 converting. Because as I understand it the jumbo rolls are
3 not included in the scope of the petition.

4 MS. CANNON: Yes, Mr. Diehl, we will be addressing
5 that in our brief. But let me just say that our view of
6 that is that the jumbo rolls is an upstream product, it's
7 excluded from the scope of the case. And so based on
8 traditional Commission practice of excluding upstream
9 product we would not include it.

10 And even if the Commission were to apply the semi-
11 finished product analysis, which would probably be most
12 appropriate since that's an input product, and we will go
13 through this analysis in more detail in our brief, you will
14 find that those factors which the Commission traditionally
15 looks at such as whether it's dedicated for use in this
16 particular product and whether the downstream activities,
17 the conversion, value added is significant, those types of
18 factors will all be met, it's a very extensive converting
19 operation that goes on following the production of the jumbo
20 rolls. But we will discuss that more fully in our brief.

21 MR. DIEHL: Okay. And then also any implications
22 as to whether a particular producer should be within the
23 domestic industry depending on whether it only makes jumbo
24 rolls or --

25 MS. CANNON: Right.

1 MR. DIEHL: -depending on the nature of the
2 affiliation between companies.

3 MS. CANNON: I think, frankly, the closest case to
4 this, it sounds odd, is the steel case that involved cut-to-
5 length plate versus coiled plate because in that case you
6 were also looking at producers of a product that was a cut-
7 to-length sheet product and you were trying to determine
8 whether people that made the coiled plate were part of that
9 industry or not. And the Commission performed an analysis I
10 think would be somewhat similar to what would go on here and
11 there the Commission found that companies that were
12 integrated and did the entire operation were part of the
13 industry, and the Commission found that companies that cut
14 the plate to length were part of the industry. But the
15 Commission found that companies that just made the coiled
16 plate, the input product were not a part of the industry
17 because they weren't making the like product, the subject
18 merchandise.

19 So I think our facts are very similar to those.
20 And we can also address that further. But I think that's a
21 good case to look to, even though the actual product is
22 different the analysis is the same.

23 MR. DIEHL: Okay. That analysis would be helpful.
24 Thank you.

25 So, Mr. Shafer, you were talking about the

1 development of Flower City before and you explained that I
2 think the '50s you made copy paper and then when that became
3 less of an important product you moved into tissue paper.
4 Can you just remind me, I think you said you started with
5 less variety of tissue paper and then you made more
6 varieties? Can you just review that history for me?

7 MR. SHAFER: Yeah. Well, in 1906 when the company
8 was founded the only product made was white wrapping tissue
9 paper. And it continued that way until 1950.

10 And then in -- we bought the subsidiary in Fulton,
11 New York, in 1986, and that's when we went into the colored
12 tissue. And probably a year, year-and-a-half after that we
13 went into the printed tissue field.

14 When you offer one product then you seem to step
15 up to purchasers of colored tissue frequently want printed
16 tissue. And so we do not do the printing ourselves but we
17 outsource the printing.

18 So that really is the history of Flower City. We
19 have always made nothing but wrapping tissue paper.

20 MR. DIEHL: How did you decide to branch out into
21 colors and then into printing? I mean what drove you to
22 make those changes? There must have been factors.

23 MR. SHAFER: Our customer, you know, Why don't you
24 guys make colored tissue? You know, that sort of thing.
25 And so after this opportunity to purchase this other mill in

1 Fulton came up and we seized the moment.

2 MR. DIEHL: Okay. So similar to what Mr. Tepe
3 said that it's customers who drive the look of the paper and
4 what they want on the paper.

5 MR. SHAFER: Yes, that's correct.

6 MR. DIEHL: Okay. Are the products that the --
7 again going to Mr. Tepe, Mr. Jones and Mr. Shafer -- on the
8 products that are imported from China are there some new
9 products or innovative products that you're having, working
10 on developing yourself?

11 MR. TEPE: There are new products in the tissue
12 area that you're seeing at retail now. And, frankly, you
13 know, we're not supplying them. We started them but the
14 newer stuff has moved over to China. For instance, die cut
15 papers, you know, we started those ten years ago.

16 MR. DIEHL: What is a die cut paper?

17 MR. TEPE: It's like scalloped edges.

18 MR. DIEHL: Okay.

19 MR. TEPE: Instead of a square edge it's die cut
20 basically or scalloped. And so you're seeing a lot of that
21 now and that's some of the new product. Frankly, we started
22 that.

23 Embossed paper again is something that, you know,
24 we introduced to the market then quickly lost it to China
25 because the pricing was just so much less. So the new

1 product out there is die cuts, embossed and hot stamped
2 which is, kind of hard to describe, but it's like taking a
3 mylar balloon material and pressing it in a pattern onto
4 tissue. It's a hot stamping process. And we worked with
5 some of the local companies that did that to gift bags and
6 had them work through that. And again showed it to some
7 folks and they were very interested in it. But amazingly,
8 we didn't get the order. It showed up, you know, in retail
9 stores supplied by China.

10 MR. DIEHL: Okay.

11 MR. TEPE: Those are probably I'd say the latest
12 things you see out there that are tissue paper in our
13 industry.

14 These are, while they're, you know, I guess
15 they're exciting they're not a very big piece of the market.
16 The major part of the market is white and solid colors,
17 printed tissue. But you go to almost any store of any note
18 you'll see, you know, a skew or two of this die cut or hot
19 stamped but all the volume's in the bulk product.

20 MR. DIEHL: Okay.

21 MR. JONES: To give you a --

22 MR. DIEHL: Go ahead.

23 MR. JONES: -- in our particular case white might
24 be close to 50 percent of our volume.

25 MR. TEPE: Yeah, we think solid colors is at

1 least, white and solid colors are at least 80 percent of
2 what's out there. And prints is then the next largest
3 segment.

4 MR. DIEHL: Okay. In the letter from some of the
5 respondent companies they characterize this as two separate
6 markets for the two types of paper, the tissue paper that
7 might be used by a store would be more plain, maybe used for
8 protective, not so much a decorative purpose. Can you
9 comment on that? Anybody?

10 MR. TEPE: First I want to know how you can
11 separate kind of the decorative from the protective piece of
12 it. They both perform, you know, the protective function.
13 I mean that's why tissue paper originally was there was to
14 be wrapped around a shirt or in a box and now it's used in
15 gift bagging. You wrap and hide the gift and protect the
16 gift and also, you know, the decorative piece of it.

17 So when the in-store give-away tissue, you know,
18 when they're buying that they're buying it for decorative
19 reasons, they want a bright white sheet or we offer 55
20 colors in that product range. He'll offer 70 colors I think
21 in his product range. We have 100 patterns in that, you
22 know, bulk tissue. Plus we have a huge custom print program
23 where we put their logo on it, do a custom color for them,
24 all kinds of decorative uses. So it's kind of hard to split
25 the two of them.

1 There is, about half the business is white and
2 it's bulk and it's used for protective reasons. And that's
3 exactly what this right here is which is found in a retail
4 store. It's about 50 percent of that market and it's white
5 and it's bulk and it's used for protective reasons. But
6 it's also decorative. I mean it's not, you know, craft or
7 dirt, you know, a lot of dirt in it, it's a decent sheet of
8 white paper which is, you know, in the bulk industry the
9 most popular thing to do is take white ink and put it on
10 white paper because it looks very clean and sharp and crisp.
11 So white by itself is not a negative by any stretch, it is a
12 decorative sheet of paper.

13 MR. DIEHL: Again, I said I'd ask very basic
14 questions. What are you protecting against? I mean it's
15 not like with glassware, for example, you would use a
16 heavier paper to prevent it from being broken. But with a
17 shirt or something what are you protecting against?

18 MR. TEPE: Laundries use it, you know, for the
19 wrinkles, to keep wrinkles out when you fold stuff. They
20 use it all the time, you know, put it in a shirt sleeve.
21 It's just used as a protective wrap.

22 MR. DIEHL: Okay.

23 MR. TEPE: Yeah, shoes in a box are a good
24 example, you know, they rub together so it keeps them from.

25 MR. DIEHL: Okay. Mr. Tepe, you also mentioned

1 you said when the imports came in they froze us on pricing.
2 Can you characterize what were the price trends at that
3 time?

4 MR. TEPE: We were done by, you know, kind of
5 cost-plus basically, we make a margin based on our costs and
6 our costs are driven by power and pulp and those types of
7 things. In 2000 things were relatively flat in terms of
8 price and it's been creeping up ever since. But --

9 MR. DIEHL: And now we're talking about the tissue
10 market as opposed to crepe market?

11 MR. TEPE: It would be both in that case.

12 MR. DIEHL: Okay.

13 MR. TEPE: It would be both.

14 But since, you know, since they've been out there
15 on the horizon any discussion around pricing, you know,
16 immediately, you know, if you guys are going to make any
17 moves in price you know we're going to have to send this out
18 to bid, internet auction, you know, we're going to have to
19 move this over to China. You guys know it's out there, you
20 know. And it was, yeah, it was quite a threat. So it just
21 kind of froze everything at 1999, 2000 pricing.

22 MR. DIEHL: Okay, let me just go with a few more
23 questions. I won't go on forever.

24 There was a comment in the introductory statement
25 by the other side that in the case of the consumer product

1 that the packaging and bundling can be more important than
2 the tissue paper inside. And I think you mentioned, Mr.
3 Tepe, at one point you were doing packaging, in charge of
4 packaging operations. My notes might be confused. But can
5 --

6 MR. TEPE: Right.

7 MR. DIEHL: -- you comment on packaging for the
8 retail -- for the consumer segment?

9 MR. TEPE: They mentioned bundling. I think what
10 they were trying to say is gift wrap and ribbons, I think
11 they mentioned, tissue sold together as a bundle. And I'm
12 sure that happens but I don't think you could find it in the
13 marketplace. If it's a percent of the market I'd be
14 shocked, quite frankly.

15 Tissue is always sold as a separate item. The
16 retailers will tell you they don't want to bundle it, they
17 want the tissue sales, they want the bag sales, they want
18 the gift wrap sales.

19 MR. DIEHL: But yet you were in charge of
20 packaging. So that sounds like that at least has some focus
21 on -- focus in one of the companies that's you've worked
22 for.

23 MR. TEPE: It's called retail packaging which is
24 another term for the bulk industry. It's what we would call
25 retail packaging at that particular company. I think they

1 were talking about this kind of packaging, weren't they?

2 MR. DIEHL: I understood that the product would be
3 sold to consumers for their use, that packaging may be more
4 important maybe in conjunction with bundling than what the
5 paper was inside. And I just wanted to give you a chance to
6 comment on that especially since you were in charge of
7 packaging, I don't recall which product it was you said.

8 MR. TEPE: No. No. I mean this is their
9 packaging and this is our packaging. This is made in China
10 and this is made in Massachusetts. And this is a product
11 that they're talking about. So I'm sorry, Michael, --

12 MR. DIEHL: You don't have to agree with what they
13 said. I just want to give you a chance to comment on it.

14 MR. MAGRATH: Mr. Diehl, if I could make a
15 comment.

16 MR. DIEHL: Yes.

17 MR. MAGRATH: I'll be redundant and say go to Wal-
18 mart and take a look. Go to Target and go to CVS and take a
19 look. One of the things that Seamans does that's very
20 innovative and I haven't seen it from the imports is they'll
21 have a fold with 20 individual sheet of folds and then
22 they'll take a 21st sheet and use that as a wrapper. It's
23 very clean looking, very, very nice looking, very attractive
24 to me as an individual consumer. But I don't know, you
25 might want a simple poly bag. There are bands, there are

1 bags from both U.S. producers, Seaman, including other
2 people, and from the imports.

3 MR. DIEHL: Okay, thank you.

4 Go ahead, Mr. Tepe.

5 MR. TEPE: Yes. If I understand your question, if
6 it has anything to do with their packaging versus our
7 packaging being different it's pretty much identical what we
8 do and what the Chinese bring in. It's the same. We're not
9 losing any market share because of how the product is
10 packaged.

11 MR. DIEHL: Okay. All right, two more questions.

12 When you have a gift wrapping service provided by
13 a department store or somebody like that might they use a
14 paper that is more similar to what is bought by the
15 consumer, more decorative than maybe what is generally used
16 to package products that are sold by retailers?

17 MR. TEPE: I think it would be more a function of
18 whether they put it in a box or whether they put it in a
19 bag. Oftentimes in a box the gift wrap, you know, covers
20 everything and they might use white tissue inside that box.

21 Generally in a gift bag where the product's coming
22 out they would tend to use a more colorful or printed
23 pattern. I think it's more a function of they're both gift
24 wrapping, it's just what is the end product or what does,
25 you know, what does the customer want, do they want it in a

1 bag or do they want it in a box?

2 MR. DIEHL: Okay. All right. And the last
3 question is for Mr. Cannon, and I may have more when we go
4 around the table, but you were distinguishing the case cited
5 by the letter that came in from Sonnenschein indicating that
6 the gift boxes, in the gift boxes case some of the boxes
7 were outside the scope whereas here all the tissue paper in
8 question is all inside the scope. But is there, does the
9 Commission treat like product questions differently when
10 you're looking at dividing a product that's within the scope
11 as opposed to when you're dividing, looking at whether to
12 expand the like product to something that's outside the
13 scope?

14 MS. CANNON: Yes. The Commission will always
15 start with the scope of the case. And in that particular
16 case they started with a scope that included all of the
17 product which -- or excluded some of the products. And we
18 have the opposite here. So because the scope is going to be
19 the initial question as to who you're going to define the
20 case then, yes, that does change the results.

21 It's not the only factor. I mean you're correct
22 that the scope of the case is not synonymous necessarily
23 with like product. And the Commission can extend the like
24 product beyond the scope to pick up other factors. But and
25 we can address this in more detail in our brief, in the

1 folding gift boxes case part of the reason that the product
2 was excluded was because of differences that existed there
3 that do not exist here. And that is why we treated
4 everything the same way even though they did not, there were
5 physical characteristics, there were other aspects of the
6 gift boxes that were for give-away that were different from
7 the included merchandise in that case.

8 MR. DIEHL: Okay. Yeah, I appreciate that there's
9 always factual distinctions. But I want to get at is when
10 the Commission's looking at the six factors is that analysis
11 somehow, and I know that I understand what you're saying
12 about the starting point being the scope, but once you're
13 looking at the two candidates, one inside, one outside
14 versus two that are inside, is that six product -- that six
15 factor analysis distinct somehow? I'd ask both sides to
16 comment on that if they wish in a post-conference brief.

17 MS. CANNON: We'd be happy to do that.

18 MR. DIEHL: Okay. Well thank you for everyone
19 traveling to Washington. And I appreciate your testimony.

20 Mr. Jones, would you like to say something?

21 MR. JONES: Yes. Could I just add a few things to
22 some of your questions there?

23 When Mr. Ruggles and Mr. Forstall visited our
24 plant we gave them swatch books there which I think they
25 brought back which I don't know if you've seen or not. But

1 that shows not only a white tissue but all of our colors,
2 the 55 different colors, also stock designs. So and even
3 though 50 percent of our business is in white, but just like
4 in the consumer side we do carry colors, we do carry stock
5 designs which are designs that we have off the shelf so you
6 don't have to buy printing plates and whatever.

7 So your questions about gift wrapping and adding
8 some special designs or whatever, we can accommodate that
9 with our products.

10 The other thing I'd like to comment on is
11 innovation. And the implication was that we weren't trying
12 new things. And I'd like to just say that at our Dennecrepe
13 plant, and I think both of you saw this, we've adapted our
14 creping machines to do surface side press coatings where we
15 can put on a prolize coating which is also in the swatch
16 book if you want to see what that looks like.

17 We can also do dip dyeing. And our printing plant
18 which has seven printing presses is really state-of-the-art
19 as far as being able to print up to eight colors. And until
20 the low priced products from China started coming in they
21 were a very hot commodity because they could do beautiful,
22 beautiful quality work, so.

23 And they have a new process for printing plate
24 cylinders called photo-in-the-round where you actually have
25 laser cylinders so there's no break in the pattern. And

1 there are only two or three other companies in the world
2 that have that.

3 MR. DIEHL: Okay, thank you very much.

4 MR. JONES: Thank you.

5 MR. CARPENTER: Ms. Pedersen from the Office of
6 Economics.

7 MS. PEDERSEN: Thank you again for your testimony.
8 I just have a few questions. And just like Mr. Diehl, I
9 apologize if I'm asking basic questions or making you repeat
10 things.

11 I just want to make sure I understand what you
12 were saying a few minutes ago, Mr. Tepe, about the die cut
13 process. You have the capability now to do that if someone
14 came to you and wanted that product?

15 MR. TEPE: Yes. We introduced it. It was
16 actually before I started with Seaman Paper so it was prior
17 to '98. And we had scalloped die cuts. And, you know, we
18 went through the process of developing how to make it. Some
19 people were very interested in it. It, you know, there was
20 obviously an up-charge for that process so we did sell a
21 little bit of it.

22 We haven't had any requests really for that, you
23 know, for the past couple years. There is, we are selling
24 one customer I think a die cut custom printed item for --
25 I'm sorry, I'm not sure exactly where it's going -- but we

1 still have one customer that's actually purchasing it from
2 us. But all that business has moved, you know.

3 MS. PEDERSEN: Okay.

4 MR. TEPE: All the development has been done.

5 MS. PEDERSEN: So it's not an issue of you not
6 being able to produce it, no one's coming to you asking for
7 it?

8 MR. TEPE: It's a simple operation. In fact, you
9 know, most of them, you know, you can figure out how to do
10 them, you know, if you're not doing them now. But it's just
11 a basic die cut of a sheet of paper.

12 MS. PEDERSEN: Okay.

13 MR. TEPE: So, yeah.

14 MS. PEDERSEN: Another product, what about
15 holographic tissue paper? And to be honest you want to, I
16 know what a holographic image is but I'm not sure what that
17 is on tissue paper. Do you want to describe that?

18 MR. TEPE: To get a holographic look you have to
19 emboss.

20 MS. PEDERSEN: Okay.

21 MR. TEPE: And most of that is on plastic. It's a
22 lightweight substrate but it's not tissue paper.

23 MS. PEDERSEN: Okay. All right, thank you.

24 My next question if any of you rather talk about
25 in post-conference brief that's fine. Several mentioned

1 that they had participated in reverse auctions over the
2 internet. And I'm just curious how common this is for the
3 tissue paper and crepe paper market and if you see it
4 becoming more prevalent or was it sort of a one-time thing?
5 I don't know who wants to take that question.

6 MR. TEPE: We have participated. They are common
7 where there's large, you know, large pieces of business out
8 there that fit into this. And they're fairly common. And
9 we have participated. And there's an opening bid price and
10 then it just gets bid down.

11 We pretty much just watched a couple happen
12 because the opening bid price and the final bid price I mean
13 it was 50 -- it was half of where it started. And to our
14 knowledge I'm almost positive that every one of those ended
15 up in China. I don't think any domestic firm has won a
16 reverse auction in the tissue paper business.

17 MS. PEDERSEN: So this is a relatively large
18 percent of your sales that you're doing in internet auction?

19 MR. TEPE: I can tell you that a large percent of
20 the business that's gone overseas is due to these.

21 MS. PEDERSEN: Okay, sorry. Well, you're getting
22 at what I was sort of trying to ask.

23 To the extent that you can discuss it at the
24 conference can you describe that process? I'm curious about
25 whether or not you're prequalified, how you hear about the

1 auction, how the starting price is determined, and whether
2 or not you know -- well, actually it doesn't sound like you
3 know the identity of your competitors when you're bidding?

4 MR. TEPE: Sometimes you recognize, you know,
5 their voices on a pre-conference call.

6 MS. PEDERSEN: Oh.

7 MR. TEPE: You know, where you're learning, given
8 the instructions for how this auction's going to work. So,
9 you know, you might recognize. It's a reasonably small
10 industry, you know, I think we all know each other. There's
11 quite a few people in this room that, you know, I talk to,
12 you know, a couple times a year or more.

13 So basically the opening price is usually what
14 they paid for it last year.

15 MS. PEDERSEN: Okay.

16 MR. TEPE: You know. And if you want to bid on
17 that price and you're capable of supplying the product, you
18 know, you might get an invite to the auction. And, you
19 know, since just a few years ago there was only a couple of
20 us that supplied all this product. Crystal Tissue was
21 another large player in this business. And everybody knew
22 where their options were for tissue paper. So it's not hard
23 to find, you know, the three or four domestic companies that
24 would do a reverse auction in this kind of product.

25 So, anyway, there's a time set up and you get to

1 bid. It lasts 30 minutes. And the lowest guy at the end of
2 30 minutes gets the business. Unless somebody bids at the
3 29th minute, then they extend it for five minutes. And if
4 somebody bids at the 34th minute then they extend it for
5 five minutes. It just keeps going till, you know, it's
6 over.

7 And then, hopefully, the company that got the
8 business can make the product and can supply it. And
9 generally that's the case.

10 MS. PEDERSEN: Are these auctions for all types of
11 tissue paper or do they tend to be more for like the bulk
12 tissue paper?

13 MR. TEPE: You know, we're working with a customer
14 now that actually tissue paper is a piece of a program where
15 the whole program's being auctioned, which really
16 complicates the process. But they're putting together
17 tissue wrap, ribbons, bows, etc., and they're bidding on a
18 program. So they've gotten quite complicated.

19 But I would have said a couple of years ago they
20 could only do this with maybe bulk paper. But it's being
21 done across a lot of different products, so.

22 MS. PEDERSEN: Okay.

23 MR. TEPE: It's becoming very common.

24 MS. PEDERSEN: Okay. Well, since you said it's
25 becoming very common I'm going to ask you to provide in your

1 post-conference brief, if you wouldn't mind, some detail on
2 the auctions that you've participated in, specifically who
3 the purchaser was, the date, it's basically sort of the lost
4 sales grid that you fill out, the product and the quantity
5 involved, the initial and final bid, the winning bid if you
6 know, and who the winning bidder was if you know.

7 MR. TEPE: Sure.

8 MS. PEDERSEN: Okay. Let's see. Some firms
9 mentioned a possible substitute for tissue paper and crepe
10 paper. For example, for tissue paper you mentioned gift
11 wrap, mylar, paper threads and more on the bulk side, I
12 guess on the bulk side unprinted newsprint, and for crepe
13 paper they mentioned banners, paper foil garlands and
14 plastic streamers. I'd just like to have someone comment on
15 that in terms of how you feel about the substitutability and
16 the relative prices with tissue and crepe paper?

17 MR. TEPE: If somebody's after tissue paper that's
18 pretty much what they purchase. There are the mylar that
19 you talked about, those types of things, those are out
20 there. They're quite expensive per sheet.

21 MS. PEDERSEN: Okay.

22 MR. TEPE: And they just don't easily, you just
23 don't easily substitute them.

24 On the other end of the spectrum, you know, there
25 are certain quality requirements that someone, you know, may

1 or may not have for their packing and stuffing and
2 protective end. It may go all the way down to newsprint but
3 a lot of people wouldn't consider that appropriate for
4 certain retail environments.

5 So if you're talking about, you know, a good solid
6 retailer they're probably not going to use newsprint because
7 of, you know, the negative connotations with it. So they're
8 on either end of the spectrum and don't really account for
9 much. You know, it's certainly nothing we're concerned
10 about competing against because they've --

11 MS. PEDERSEN: Okay.

12 MR. TEPE: -- they've been out there forever and
13 haven't impacted us.

14 MS. PEDERSEN: All right, thank you.

15 One more question. This is where it gets kind of
16 basic, so bear with me. We do have come data on the record
17 about this but I would find it helpful if maybe Mr. Magrath
18 or Ms. Beck would want to comment on this. But the
19 principal, what you feel the principal factors are that
20 affect demand for tissue paper and crepe paper? And it
21 sounds like there's some seasonality with the holiday season
22 but is there any other seasonality factors, trends in demand
23 over the past few years and what you see going forward in
24 demand?

25 So if anyone wants to comment on that?

1 MR. MAGRATH: Certainly Gina may have or members
2 of the panel might have things to add here. Certainly
3 seasonality is a factor. The holiday season you have a lot
4 of sales of basic red and green paper. And those are large,
5 large purchases, one-time orders that are done in the spring
6 and delivered in the fall.

7 Very interesting, it's outside the period of
8 investigation, but this whole I've been told by Seaman that
9 these decorative tissues got a big boost when gift bags came
10 in. People are too busy nowadays to wrap presents.
11 Certainly if I had all the time in the world I couldn't wrap
12 a present anyway given my small motor control. But these
13 gift bags came in as a convenient way to give people
14 presents. And, you know, you really just had to, you had to
15 stick something on top of it. So that that gave a big boost
16 to the tissue paper business.

17 And in general, Ms. Pedersen, I think you're going
18 to find from the questionnaires that the respondents, most
19 of the respondents are saying that demand has for these
20 products, both tissue paper and crepe has been steady. Some
21 say that it's increasing. But we'll see what the demand
22 numbers that you guys are going to add up amount to.

23 MS. PEDERSEN: Okay, thank you very much.

24 MR. CARPENTER: Mr. Mehta, the Commission's
25 auditor.

1 MR. MEHTA: No questions.

2 MR. CARPENTER: Mr. Forstall from the Office of
3 Industries?

4 MR. FORSTALL: Thank you, Mr. Carpenter.

5 Just a few questions. For the veteran paper
6 makers just one deal, one quick question to clarify and
7 eliminate any confusion.

8 Traditionally tissue paper is basically state on a
9 3,000 square foot basis. I gather that the reams in this
10 business are 480 feet. So with that in mind, 480 feet
11 versus 500 when you express basically on a per pound basis
12 is that figured on a 3,000 square foot basis or is that
13 figured on a 480 feet basis which of course would be
14 something less, 2,880 square feet?

15 MR. JONES: Our calculations were based on a,
16 actually on a 500, 24 by 36 500 --

17 MR. FORSTALL: Okay.

18 MR. JONES: -- square foot, 3,000 square foot
19 basis.

20 MR. FORSTALL: So 3,000 square foot.

21 MR. JONES: Yes.

22 MR. FORSTALL: Thank you.

23 Now, the next question is what would be your
24 typical range of basis weight, or typical basis weight for
25 your end skill product?

1 MR. TEPE: I mean I can speak for Seaman Paper but
2 it's, I think it's pretty close for everybody. We range
3 from 8.5 pounds on kind of the low end. And some of our
4 prints or coatings are printed or coated two sides and it
5 will go up to 15, 16, 16.5 pounds, maybe up to 17.

6 So if it's right off the end of the paper machine
7 it's between 8.5 and 11. When we're treating it, printing
8 it, dip dyeing, put flame proof materials on it, coating it,
9 that type of thing, so typically when you run over a press
10 you're going to add 2 to 3 pounds. And if you run it
11 through twice then you're going to almost double that.

12 So for us that's kind of the range.

13 MR. SHAFER: For Flower City our range would be
14 around 9.5 pounds up to 20 pounds. And most of the 20 pound
15 business is tissue which is used for interleaving metal
16 products. That's a big item for us.

17 MR. FORSTALL: And that is also on a 3,000 square
18 foot basis?

19 MR. SHAFER: No. Everything we do is 480. But in
20 answering, responding to the survey there was a formula
21 there for converting to square meters.

22 MR. FORSTALL: Right.

23 MR. SHAFER: But for production purposes,
24 labeling, everything at Flower City is 480.

25 MR. FORSTALL: Right. Okay. And square meters of

1 course is square meters. But the basis weight of course
2 depends on the basis. So I still want to eliminate all
3 confusion in that regard.

4 Okay, one final question I think for you, Mr.
5 Tepe. And this gets back to Mr. Diehl's question in a
6 little bit different way.

7 You stated that you ran custom, well, customer
8 design. And I guess the question is to what extent do those
9 customer designs become a part of your customer's
10 coordinated product line?

11 MR. TEPE: Well, we run, you know, we run the
12 customer specs absolutely, and we also have our own
13 products. So depending on how we're going to market,
14 whether we're marketing directly and supplying designs or
15 supplying, you now, basically an OEM environment for a
16 customer. So we do both. Certainly capable of doing both.

17 Tissue paper is sometimes the exact design is what
18 they'd use on gift wrap, so we say that we could print your
19 gift wrap and we could print your tissue paper using the
20 same design taking advantage of the printing sleeves or
21 printing cylinders. We can save them, you know, happen to
22 have a second set of plates to print a coordinating design
23 when they could do the exact design. So that's an option
24 for them.

25 And sometimes they do that. Oftentimes with a

1 tissue design they'll make it look, they'll coordinate like
2 you said but not be an exact duplicate of what's on a gift
3 bag or on gift wrap. And so in that case, you know, we can
4 just print the tissue for them. In some cases these guys
5 are gift wrap printers so we're doing, you know, a piece of
6 a coordinate for them. In other cases we can do the entire
7 array of products, we can supply them with gift wrap and
8 printed tissue.

9 So we're capable of doing almost anything. And
10 that's really how we've gotten how we are is we do whatever
11 is necessary to continue to sell to the marketplace. So
12 depending on the customer is how we're approaching it.

13 MR. FORSTALL: Now, would that in a sense that
14 custom approach actually extend to solid colors? Would they
15 have their own particular color that they would want you to
16 make, to manufacture?

17 MR. TEPE: Our larger customers oftentimes have a
18 pallet that they want to use across, you know, their entire
19 product range so we do custom colors. It's more common in
20 the large retailers and the large marketers because they
21 have to be able to buy a significant amount of product for
22 custom color. But it's not a lot compared to their sales.

23 So oftentimes on the consumer side they're kind of
24 happy with the basic colors and maybe just a couple custom
25 colors. But it's fairly common.

1 MR. FORSTALL: What about on the retail side?

2 MR. TEPE: We offer 55. And most of those, I
3 won't say most of but a good portion of those colors started
4 out as a custom color for someone developing, you know,
5 specifically for something they had in mind. And we just
6 would then carry it through into our stock line the next
7 year. So, you know, it was custom and then it went to, you
8 know, a stock color for us.

9 And 55, you know, we cover most of them but we're
10 still constantly, you know, putting new colors into the
11 line.

12 MR. FORSTALL: Thank you. I have no further
13 questions at this time, Mr. Carpenter.

14 MR. CARPENTER: Thank you

15 Mr. Corkran, the supervisory investigator?

16 MR. CORKRAN: Thank you very much. And thank all
17 of you all for appearing today.

18 I have a few questions. For the most part they'll
19 range over a number of issues because most of the issues
20 have been well covered already.

21 The first one I wanted to get a better handle on I
22 think though is whether you agree or disagree that tissue
23 paper sold in reams is typically a retail tissue paper, that
24 is it's consumed by retail establishments and not resold? I
25 guess what I'm trying to get at is rather than focusing on a

1 use is a particular size typically sold in the bulk market
2 versus the retail -- versus the consumer market?

3 MR. TEPE: When you say size you're referring to
4 the sheet size or the --

5 MR. CORKRAN: The number of sheets.

6 MR. TEPE: Number of sheets. They overlap quite a
7 bit. During the Christmas season where there is a lot of
8 gift wrapping going on in a short period of time those sheet
9 counts get quite high in a retail environment like a, you
10 know, a Wal-mart or something like that. They'll sell up to
11 120, even 180 sheets because at that point in time they know
12 customers are thinking I've got to wrap all those gifts
13 under the tree.

14 So and on the other hand some of our what's being
15 called bulk paper we start at 100 sheets, because it's
16 printed it's more expensive, to try to keep the price point
17 down. That kind of goes from 100 to 500.

18 Where the rub is is when you go to the clubs
19 because in that environment there the bulk stuff is being
20 sold, you know, to consumers. They only sell it at
21 Christmastime but that's when the gifts, you know, that's
22 when most of our business ends up happening anyway, it's all
23 around, you know, retail trade and giving gifts.

24 MR. CORKRAN: A club?

25 MR. TEPE: I'm sorry, a club would be like I think

1 you have Costco and B.J.'s and Sam's. I think all three of
2 them are in this area. And those, I mean that is, those are
3 the clubs. I don't know that there's another. But they
4 sell a 300 sheet count and a 120 sheet count side by side
5 and consumers come in and purchase that pack.

6 MR. CORKRAN: Okay, thank you.

7 My second question, Mr. Shafer, you indicated that
8 Flower City sold both reams of paper, of tissue paper and
9 folds of tissue paper. And I think you may have indicated
10 that there were, that -- well, let me ask you this. Are
11 there any other forms in which you sell tissue paper? And
12 also, can you give us a sense of which, folds or reams,
13 constitute a larger share of your sales?

14 MR. SHAFER: Our reams would definitely constitute
15 a larger part of the sales. We also sell rolls as I
16 indicated for steel, steel interleaving use, vinyl
17 interleaving use, things of this nature. So tissue in that
18 form leaves the mill as a roll for industrial use.

19 But reams, excluding the rolls, ream tissue is by
20 far a larger quantity, larger part of our production than
21 the retail folds are, the consumer tissue.

22 Again, the example I provided on the specialized
23 machinery we bought and then all of a sudden found that we
24 were out of the market that's had an impact on that
25 proportion between the two.

1 MR. CORKRAN: Okay, thank you very much.

2 Mr. Tepe, you had indicated in your testimony
3 earlier that designs and colors may frequently be dictated
4 by the customer. I'm wondering, are there particular
5 accounts or particular sales that your company may have lost
6 because of an inability to meet the specifications by the
7 customer?

8 MR. TEPE: I can't think of any. You know, we
9 print, we're completely integrated, we make our own plates,
10 we print our own packaging. We're great paper makers. You
11 know, we supply the best marketers and the best retailers
12 out there with their product and have for years. So I don't
13 think they had any complaints about, you know, what we're
14 capable of doing. So nothing to my knowledge.

15 MR. CORKRAN: Maybe I should make that question a
16 little more specific I guess. Have you ever, in recent
17 years has your company declined to quote on particular
18 projects because of an inability to meet specifications?

19 MR. TEPE: I don't think so. No.

20 MR. CORKRAN: No? Okay. Okay, thank you.

21 I'm somewhat curious about the role of
22 distributors in the market. And I'm wondering has the
23 relationship with Flower City and distributors or with
24 Seamans and distributors changed over time in recent years?

25 MR. SHAFER: Our sales force basically are the

1 distributors. There's hundreds of distributors with
2 hundreds of sales people. And we have one sales manager and
3 myself and my son on occasion when we have reason to go
4 somewhere. So the maintaining and supporting your
5 distributors is very, very essential for us. And we will go
6 out of our way to determine if someone is an end user or
7 someone is a distributor. And once in a while somebody
8 fools us and we realized we're selling to an end user. But
9 it's we may be talking about a carton or two or three,
10 nothing of any significance.

11 So it's in our best interest to maintain the
12 distributor relationship. And the distributors feel the
13 same way about the mills, they don't like to deal with mills
14 who they feel will not support them in every situation.

15 MR. TEPE: The largest of the purchasers, you
16 know, today are retailers in one fashion or another. And so
17 maybe what's changed is they've got more power in the
18 marketplace, you know, they may dictate back to distribution
19 how that whole process is going to be handled. So they may
20 actually negotiate a price with us and then have a
21 distributor actually deliver it and negotiate a separate
22 deal with them on just the delivery charge.

23 As they become more sophisticated, you know, they
24 may bypass the distributor, work with us directly on their
25 program. And then they may go back and use that distributor

1 to actually deliver the product.

2 So I think what's changed, if anything, is that
3 the distributor's customers have gotten larger and so kind
4 of the power in the channel has shifted around a little bit.
5 And it makes the sales call actually a little better for us
6 because we can work more with the actual end user and work
7 with them on, you know, what we know which is tissue paper
8 and crepe.

9 MR. CORKRAN: I guess the next two questions they
10 also relate to distributors and I'll fold them into one.
11 And that is do you tend to work with the same distributors
12 when you're selling both reams and folds? Because I seem to
13 recall that you indicated that they both accounted for a
14 substantial portion of your sales.

15 And, secondly, Mr. Shafer just testified about the
16 trying to avoid direct competition in sales to end users.
17 Do you find yourselves competing with distributors for sales
18 to end users in either your ream or your fold sales?

19 MR. TEPE: It's a touchy subject. As one retailer
20 buys another retailer we might have a distributor
21 relationship with one and be selling direct to the other and
22 so that's something you've got to work through. That has
23 certainly happened.

24 I'm sorry, what was your first question?

25 MR. CORKRAN: Well, basically is your relationship

1 with distributors the same for your sale of material in
2 reams and material in folds?

3 MR. TEPE: Folds. In a lot of cases they are
4 separate but in some cases, you know, we'll sell people
5 reams and they'll turn them into folds. The clubs are an
6 instance where, and I'm not so sure if it is a ream or a
7 fold, you know, and they are in a sense, you know, they're a
8 distributor, they're a distributor to small businesses but
9 they're also a consumer outlet.

10 So but there are plenty of instances where, you
11 know, a retailer will use a distributor just to, you know,
12 deliver to their store. And in other cases they'll use a
13 distributor that's also a marketer that will, you know,
14 bring them a coordinated program and supply the art and
15 everything for that. So the lines aren't all blurred.

16 MR. MAGRATH: Mr. Corkran, can I make a comment?

17 MR. CORKRAN: Certainly.

18 MR. MAGRATH: In the last several years in the
19 consumer market I mean the big change has been the
20 development of these discount chains, very large retail
21 category killers. We're talking about the Wal-marts and the
22 Targets of the world. And in the tissue paper business we
23 now have one of these very large retailers who is bypassing
24 the distributor channel and importing directly from China
25 for what we think is 100 percent of their requirements.

1 This causes a cascading effect and the exact
2 nature of the price pressure on domestic producers is
3 through their distributors who are trying to sell these
4 other major retail chains who tell them if, you know, you
5 don't get Seaman or you don't get Flower City to agree to
6 this lower price or to keep their prices where they are
7 despite their increasing costs that we may start importing
8 directly just like Chain A. And that's a large part of this
9 continued pricing pressure that the gentlemen have testified
10 to today.

11 MR. CORKRAN: Okay, I appreciate that.

12 And I guess the next question I have really goes
13 more toward logistics. Again a two-part question.

14 Typically well is inventory held in the supply
15 chain? You had mentioned before that there's a certain
16 seasonality to at least some of the sales. And the second
17 part of the question is looking in the petition it struck me
18 that most of the U.S. producers of this, of crepe paper and
19 of tissue paper are located in the eastern portion of the
20 United States or certainly not in the western portion of the
21 United States. How is the western portion of the United
22 States supplied?

23 MR. TEPE: A little different maybe for different
24 companies. We have a huge warehouse out on the west coast,
25 a redistributor who will take care of any small orders to

1 that region. Any significant order, truckload order, you
2 know, we would probably still service from New England.

3 It's a long way away but, quite frankly, freight rates to
4 the west coast are probably less than you'd imagine because
5 there's so much freight going up into our area and so little
6 manufacturing left up there sending stuff out that we can be
7 reasonably, you know, effective in delivery to the west
8 coast truckload quantities.

9 So we have warehousing in Minneapolis, L.A., in
10 Dallas and New Jersey and Chicago where we have kind of our
11 stock program. It's more than just stock program because it
12 may be a program that we've worked with a customer that's
13 custom but we kind of got the business for a year or a
14 season and so we may park some of those goods in the
15 appropriate location.

16 In the case of the retailers, I mean they really
17 are sophisticated distributors. You know, they have 20
18 distribution centers throughout the country that, you know,
19 we're sending product to and they do the distribution when
20 it comes to large retailers.

21 Well, Christmas basis, you know, it's being made
22 for three or four months and then being shipped for a couple
23 months so it's probably at our location half the time and
24 then it's out through the distribution chain. You know,
25 we're always looking to what our customers is have them let

1 us run it up as soon as we possibly can so that we don't
2 have any service issues with them. So we're spending this
3 time of year making of much of the Christmas as we can
4 early.

5 A lot of our customers will give us forecasts to
6 work off of, not exactly purchase orders, but they'll say,
7 you know, you've got this item, you're going to have it for
8 a year. Last year I bought ten. You know, you can make
9 eight if you feel comfortable with that. And so then if
10 that makes sense for us we'll make all eight or we'll just
11 make sure we have a couple. You know, I'm talking thousands
12 or hundreds of thousands, so that's kind of the concept.

13 And every customer works a little different. We
14 have a tremendous amount of warehousing. And from our
15 perspective as soon as we can make it, we make it, and hold
16 as much as we can. Customers are kind of pushing back, they
17 want less -- they want to own less but they want to make
18 sure they get service. So we end up with quite a bit of
19 inventory that way.

20 MR. CORKRAN: Okay. I think perhaps my last
21 question is on how to look at the data. As we measure
22 shipments and we measure consumption in the United States
23 we've requested information both on a quantity basis and on
24 a value basis. And I'm wondering if you view one as being
25 potentially more accurate than the other in terms of

1 measuring shipments and consumption?

2 MR. MAGRATH: Well, Mr. Corkran, usually the --
3 unless given a very reason not to the Commission, well,
4 calculates it both ways but it seems to emphasize
5 consumption and market share on a quantity basis. We think
6 that's the way you should go here.

7 If you do it on a value basis you get all these
8 issues about particular product mixes. And in this kind of
9 industry where you've got, you know, seven different colors,
10 50 different colors, 100 different patterns you would have
11 problems measuring on a value basis.

12 It appears in your questionnaire responses so far
13 you've had them report on a square meter basis that no
14 respondent -- either petitioners or foreign respondents are
15 having trouble reporting on that basis. So I would stick
16 with that.

17 MR. CORKRAN: The reason why I ask is it's true
18 we've asked for information on a square meter basis but I
19 wasn't sure, certain parts of the market be it for companies
20 purchasing reams or companies purchasing folds might put
21 greater priority on the weight of a product versus the just
22 the shear area covered. I don't know, in your sales of
23 reams in particular I don't know if you've come across that
24 or not?

25 MR. TEPE: I think it was mentioned that a lot of

1 the reams the bulk is sold by weight. And there is some
2 sold by weight but the lion's share is sold by sheets or
3 square inches, you know, square meters. I mean that would
4 be it's a discrete sheet so they want, you know, to wrap
5 around one shirt or whatever. So the first thing they want
6 is probably a sheet size to know what that is and then the
7 number of sheets they're going to get. So I think area is
8 the right one to use.

9 MR. CORKRAN: Okay. Well, I certainly appreciate
10 all your time here.

11 And the last request I would have is as you
12 discuss the issues that we've -- that have been raised today
13 could you please be very clear in your post-conference
14 briefs when you're referring to crepe paper versus tissue
15 paper. And further, when you're referring to tissue paper
16 whether you're referring to your sales of bulk items if you
17 will, ream products, versus sales of the folded product.

18 And I would also request that for the two
19 companies that have indicated that their sales consist of
20 both of those products if you could provide separate
21 information data on those two products. And we'll provide
22 you a grid to report that.

23 MR. MAGRATH: Mr. Corkran, I have a question.
24 What should they do with club packs that overlap both
25 product categories?

1 MR. CORKRAN: I would tend to think that club
2 packs would be treated in terms of the folded, the folded
3 product rather than the ream product.

4 MR. MAGRATH: And even though a lot of those are
5 sold to small business, not to consumers, they're sold to
6 small business for their in-store give-away programs?

7 MR. CORKRAN: Yeah, but I believe the testimony
8 was they were sold for both purposes.

9 But you raise a very good point which is if you
10 can quantify, and I understand the fact that there is a --
11 that that may be viewed as an intermediate state, if you
12 could quantify how important club sales are.

13 MR. TEPE: There's also customers that will take
14 folded reams and put them in their store and sell them by
15 the sheet. Where do you want that to fall in?

16 MR. CORKRAN: Well, the folded -- since the best,
17 the best way we have to identify these two products if they
18 are separate would be whether they're reams or folds they
19 would be treated as reams.

20 MR. CARPENTER: I see some inquisitive faces. Do
21 you have any follow-up questions you'd like to ask with
22 respect to that last question?

23 MS. CANNON: Well, we're just struggling a bit. I
24 mean as you saw from our testimony we've seen a lot of
25 overlap here. And so if you define it as a fold often it's

1 in a club pack, it's even in a ream. They fold reams. If
2 you define it on size you've got a big range that ranges
3 even into the folds that are if you look at some of the big
4 ones 120 pieces.

5 So we're just struggling a little bit. Which is
6 why we don't agree, obviously, with the like product
7 description. But just to answer your question and break it
8 out I think we are going to have to draw some lines where
9 perhaps they don't normally track these products, so.

10 MR. HARTQUIST: Or at least it's my view in the
11 ambiguity that we have in trying to break out the case.

12 MR. CORKRAN: That would be very much appreciated
13 as well as being able to quantify where the problems come
14 up. I mean I can certainly understand that any dividing
15 line might not be clear. But if you're dealing with a
16 portion of your sales lines that accounts for a very, very,
17 very small percentage of sales that is less of a -- that may
18 be less of a concern.

19 MR. CARPENTER: I have a few follow-up questions.
20 I was going to ask about the club pack flats since we were
21 just on that. Maybe a couple follow-ups there.

22 First of all, can you give us just a real ballpark
23 estimate as to what share of the market the club packs
24 account for? I mean are we talking about less than 10
25 percent of consumption? Or would you really like to think

1 about that an respond in your brief?

2 MR. TEPE: We can give you specifics but we should
3 wait -- large sellers of tissue paper.

4 MR. CARPENTER: Do those typically go to warehouse
5 stores? I believe the testimony was they also went to
6 smaller retailers who sell to package their own product. In
7 terms of the channels of distribution are there any
8 limitations on what type of customers -- Well, are they
9 restricted to just certain types of customers generally and
10 they don't enter certain other markets? Or do they end up
11 in quite a few different channels?

12 MR. TEPE: You're referring to the club pack?

13 There's three major clubs, and I guess any product
14 that's in there we're kind of referring to as a club pack.
15 But the one item specifically, is between 250-350 sheets.
16 Then there's another item and that item you'll find in
17 retail at Christmas, pretty much the same item. Basically
18 the retailers that are not club go up to a higher sheet
19 count than what they would on an every day basis. They may
20 have 120, 150, 180 sheets, but the clubs have a tendency to
21 have more than that.

22 Usually those are just at the clubs but there's
23 quite a few heavy sheet count items out there at Christmas.
24 A lot different than the very day tissue fold that's 5/8
25 sheets. I'm not sure where it starts and where it stops.

1 That's kind of one of the problems we have with the bulk
2 indication.

3 MR. CARPENTER: Are the club packs just restricted
4 to white tissue paper?

5 MR. TEPE: No. No, actually the other one has
6 white, red, green and prints. One of the clubs just --

7 MS. CANNON: Actually that's a ream. That printed
8 one is a club pack.

9 MR. TEPE: White, red, green and prints in one of
10 the clubs. I don't know if they did it this year but they
11 just had white, red and green as a heavy pack item.

12 MR. CARPENTER: Ms. Cannon, you brought this up
13 originally. Was your main point here more or less that this
14 tends to blur the distinction between the channels of
15 distribution that you don't just have the bulk tissue going
16 to the large retailers and then the consumer product?

17 MS. CANNON: Absolutely, because when you go to
18 the club store you're going to have both consumers and small
19 retailers, small business people coming to purchase those
20 types of packs. That's one of the indications. But my
21 other point was that when you just look at the package you
22 see that it physically falls in between the two. They're
23 large sheets, they're not small sheets. They're packaged in
24 a volume, in a number of sheets that's usually somewhere in
25 between the reams and the folds but they can overlap them,

1 and you often have the prints and other design features that
2 the Respondents were arguing aren't present when you're
3 looking at these larger packages. So you're just getting a
4 lot of blurring of the lines I think in a club pack, and
5 overlapping channels of distribution is one of them.

6 MR. CARPENTER: Can you give us, if this hasn't
7 already been asked by Mr. Corkran, I'm not sure, but if you
8 can give us in your brief an estimate of what percentage of
9 the sales of the club packs ultimately go to consumers for
10 their use in wrapping gifts as opposed to businesses that
11 use them for the same purposes. Maybe that's difficult for
12 you to provide because you're not -- If you have any
13 thoughts on that, okay.

14 MR. HARTQUIST: We'll try. That's difficult for
15 us to do.

16 MR. CARPENTER: I recognize that could be
17 difficult. If it is, no problem.

18 I'd like to go back to what I think was one of the
19 Respondent's arguments i their opening statement and that
20 was that, if I heard it correctly, that U.S. producers have
21 something like 95 percent of the bulk market and that's a
22 declining market. Therefore producers have been forced to
23 get into the consumer market. If we could just start right
24 there.

25 Do you have any response to those claims?

1 MR. TEPE: There are a few claims there. Is it a
2 declining market? I'm not sure that it is. I think it may
3 not be growing but I don't think it's a declining market.
4 Do we have 95 percent of it? I think we show that we have
5 less than 95 percent of it, that there are more imports.
6 Off the top of my head I really don't have that number, but
7 it's not 95 percent. We've been selling retailers and
8 consumer products for years. In fact we supplied, three
9 years ago, four years ago there was very little Chinese
10 tissue in the marketplace. It was all done by domestic
11 manufacturers. Several of them are out of business at this
12 point, but we were all in both sides of the business. I'm
13 not sure where that comes from.

14 MR. CARPENTER: Has the so-called consumer market
15 increased as a share of the total market over the last few
16 years?

17 MR. TEPE: I don't think it's increased much over
18 the last few years. There was large growth ten years ago,
19 maybe more than that, with this gift bag innovation. A lot
20 more tissue paper was being used after 1985 when they came
21 out than before 1985 and there was quite a bit of growth
22 there for ten years. But I think that boom is over. We
23 heard some reports, some sell-throughs this past Christmas
24 season that were not stellar. They may have bought up but
25 they didn't sell through everything prior to December 24th,

1 so I've seen plenty of indications that it's chugging along
2 but it's not really growing at any great pace.

3 MR. CARPENTER: That growth ten years or so ago
4 related to the increased popularity of the gift bags, is
5 that something that U.S. producers were involved in from the
6 start, or is that a product that imports captured a major
7 share of at the beginning?

8 MR. TEPE: As far as selling and marketing those
9 products?

10 MR. CARPENTER: Right.

11 MR. TEPE: It started out, actually I work for a
12 company called Crystal Tissue. They were one of the first
13 ones that figured out the relationship between a gift bag
14 sale and tissue sales. So they started marketing very
15 heavily bags and tissue. Quite frankly, they had an
16 astounding piece of the market because they were the first
17 ones in. They had an astounding piece of the market when
18 they were sold a year and a half ago now, but they sold
19 because they couldn't compete.

20 MR. CARPENTER: They were a U.S. producer at the
21 time?

22 MR. TEPE: Yeah, they were established in 1894,
23 started making tissue paper. Again, like in '84 and '85,
24 they got into the gift bag business and were the dominant
25 player for three or four years there before everybody else

1 caught on to the connection there so they did a real nice
2 job growing their business and they held on to all that
3 growth through most of the '80s and '90s and into early
4 2000.

5 MR. CARPENTER: Thank you.

6 The Respondents also seemed to be arguing that the
7 growth they've been able to achieve has been driven by
8 product innovation and Mr. Jones, I think you alluded to
9 that somewhat.

10 What has been the effect of this product
11 innovation? Has it expanded the market? Have -- First of
12 all, do you see that the imports have come out with more
13 innovations vis-a-vis the U.S. industry and that that's the
14 way they've been able to capture an increasing share of the
15 market?

16 MR. JONES: You have to understand, the innovative
17 part that you're talking about is a very small part of the
18 market so the bulk is in your whites and your reds and your
19 greens for the resale items and whatever.

20 These other items are glitzy and people like to
21 talk about them, but really the volume is all driven on
22 other types of products which have to be priced correctly.
23 Those are products that we have a very hard time competing
24 with.

25 MR. CARPENTER: I see.

1 MR. TEPE: I think what they're saying is they can
2 buy those innovations cheaper in China than they can get
3 them done here. That's why they're coming out of China.
4 It's not that they can't be done here. They were started
5 here. But I think their point is, they're cheaper over
6 there so that's what's driving my business. However, the
7 volume isn't there.

8 MR. CARPENTER: That's a very small share of the
9 market. Is it increasing as a share of the total market
10 over the last two or three years?

11 MR. TEPE: It can be deceiving because most of
12 that product is sold in an assortment so there might be a
13 die cut sheet, three, four sheets, and in the same package
14 will be three or four sheets of a solid color. Sometimes
15 the proportion is even less die cut sheets to the other
16 sheets in the assortment, so I mean I'd be surprised if it's
17 more than three or four percent of the volume of the actual
18 die cut sheets and hot stamp sheets and those types of
19 things.

20 MR. MAGRATH: Mr. Carpenter, We're at a little bit
21 of a disadvantage here. The Respondents had mentioned
22 innovative products. They haven't specified what they are
23 yet, so maybe we ought to let them put on their case.

24 In the questionnaire responses this die cut
25 product was mentioned by several of them, and you've heard

1 testimony from Mr. Tepe today that Seaman actually invented
2 and developed that die cut product so that would hardly be
3 an innovation to the U.S. industry.

4 Also we have other information that a lot of the
5 Chinese industry is rather primitive and inefficient and has
6 a higher labor, less capital intensity than the U.S.
7 industry. So it's hard for me to think that the Chinese
8 have greater technology or are more innovative than the
9 United States.

10 Finally I'd like to say we've given you a few
11 examples here of patterns that were developed by Seaman in
12 the United States for a customer only to have that customer
13 then take them over to China to produce. Why? Well, price
14 is certainly the reason.

15 MR. CARPENTER: Mr. Tepe, you may be a good one to
16 answer this. Could you tell us a little bit more about how
17 sales are made in this industry, either whether you approach
18 a customer or a customer approaches you. Do they tell you
19 basically what they want and you show them what you have to
20 offer? How does that work?

21 MR. TEPE: A large portion of the business is
22 solid colors so they are usually picking from our collection
23 of colors because we have such a large selection there, so
24 that piece of business, we're going to them with different
25 combinations of colors put together and those types of

1 things.

2 Prints and designs, it depends really on whether
3 we're selling to a distributor that wants to control what
4 they're selling in terms of design and program to a
5 retailer, whether we're going direct to a retailer. In most
6 cases distributors have, kind of distributors marketers have
7 their own program and they just want us to perform the OEM
8 function and just make the product for them and they're
9 going to market it.

10 However, we have another range of distributors
11 that really just want to market our program, so there's that
12 also.

13 But oftentimes what will happen is a retailer will
14 pick one company to supply their kind of, the majority of
15 their business which is white and solid colors. Then
16 they'll go to two or three different companies that have an
17 array of patterns and pick the ones from each group that
18 really pleases them and fits in with the market and their
19 customer. They have a tendency to do that type of thing.
20 So they'll pick from two or three. But usually when it
21 comes to the bulk stuff they pick a vendor and go with them.
22 It's reasonably basic product.

23 MR. CARPENTER: To the extent that you've lost
24 sales, have customers gotten back to you and explained why
25 they switched to imports?

1 MR. TEPE: In every case it's been price.

2 MR. JONES: Could I add something? I got the call
3 on the crepe tissue business that we just lost last week and
4 we really didn't even know about it until I walked into a
5 big chain and we were wondering, the plant was slow when you
6 gentlemen came to see us and I thought it might have been
7 seasonality because I didn't know anything differently.
8 Finally I went to the store and found Chinese product in the
9 bins instead of ours. When I confronted our customer about
10 it he said yes, we were forced to do it. He said the only
11 reason we did it was because of price. He said we had no
12 problems with you other than our problem with price and we
13 have to get our prices down to compete in this market based
14 on what other people are doing.

15 MR. CARPENTER: Thank you.

16 MS. BECK: Mr. Carpenter, if I could just follow
17 up on your earlier question about the innovative products.

18 MR. CARPENTER: Sure.

19 MS. BECK: If you look at the consumption figures
20 which we aren't able to calculate in final form until all
21 the questionnaire responses are in, I think you'll see that
22 any growth in consumption compared to the growth in the
23 volume of imports from China and just on the market share
24 basis is so tremendous and vast in comparison to what any
25 increase in consumption would be that even if you're taking

1 into account these smaller specialty and innovative products
2 there would be no way that this jump could be accounted for
3 by these products.

4 If you go into your local store, again, what do
5 you see? You see the whites, the solid colors.

6 MR. CARPENTER: Thank you, Ms. Beck.

7 That reminds me of another question. I think Mr.
8 Magrath you said that non-subject imports are very small in
9 this industry. Why is that? And has that always been the
10 case? Did the imports from China supplant imports from
11 other sources previously?

12 MR. MAGRATH: There used to be a little bit coming
13 over from other countries. Quite frankly, over the years as
14 we've gotten more efficient we export to I think 35
15 countries. We go to Europe every year, we have distribution
16 over there, we sell in Japan, we sell in Mexico, we sell in
17 Canada. We're pretty competitive. Product's not coming
18 here fairly priced and taking our business. Products come
19 in here unfairly priced from China and taking our business.

20 MR. CARPENTER: Have you seen product offerings
21 from any other countries besides China to any significant
22 degree?

23 MR. MAGRATH: I understand that there might be
24 some crepe coming up from Mexico and that they do make
25 crepe. It is a project that's used down there. But I think

1 it's died so the color comes out of the sheet. It's just
2 not exactly what is required by our customers.

3 There are a few mills in Europe that are quite
4 frankly struggling. We talked long and hard with one in
5 France that was having trouble staying in business and knew
6 of us because we were marketing over there and wondered if
7 there was any way we could work together. I think they're
8 out or about out. There's one out of Scandinavia that used
9 to send stuff over here. So yeah, we're aware of some
10 competitors around the world but the product's not coming
11 this way.

12 MR. CARPENTER: One final question. For some of
13 the larger purchasers like WalMart and Target have been
14 mentioned, and also I'm curious about the warehouse clubs.
15 Is it your feeling that they tend to single source their
16 product? And if so, why would that be?

17 MR. MAGRATH: My experience with them, and I sold
18 both those accounts for several years, I think about ten
19 years I was involved directly in what was going on. For an
20 item like tissue paper in almost every case in the seasonal,
21 they find a source for a SKU. That would be the white, the
22 red, the green, and maybe two or three different counts, but
23 each one of those SKUs would be from one supplier throughout
24 the chain and usually if you got the white you got the red
25 and green and you got most of the bulk basic stuff, and

1 maybe some of the patterns or specialty items that they
2 would use an additional vendor. But then if that vendor got
3 an item, that item would be at every one of those stores.

4 On an everyday basis, really kind of the same
5 thing. You have a tendency to use one source because it's a
6 fairly small piece of a program. Bag, tissue, cards, gift
7 wrap, etc. So you have a tendency to try to use the single
8 source throughout. I would say that's by far the most
9 common way it's done. Eighty to 90 percent of the volume is
10 single sourced that way.

11 MR. CARPENTER: Thank you. That's very helpful.

12 One other thing, I remember Ms. Pedersen was
13 asking questions about seasonality but I'm not sure I heard
14 any kind of an estimate as to what percentage of sales would
15 be around the Christmas season. Is that something that you
16 would have a handle on or might be able to provide in the
17 brief?

18 MR. TEPE: We can give you something in the brief
19 I think that would --

20 MR. CARPENTER: Thank you very much.

21 Any other questions?

22 Mr. Diehl?

23 MR. DIEHL: Okay, I'm going to try your patience
24 by even more basic questions.

25 Ream paper I can understand. I'm protecting

1 shirts, I pull one out, I put a shirt, and I give it -- fold
2 it. Why do you fold the product that you're selling to
3 consumers? Why not just sell them a ream product? Is it
4 simply customers don't like a big box? They like it folded
5 smaller. Can anyone comment on why you fold when you're
6 selling to consumers?

7 MR. TEPE: Actually consumers, I don't have one of
8 the smaller packs here, but I know Fred has one up there.

9 When we do studies with consumers they'll tell you
10 that this is better than this here, van though it's the same
11 size sheet, so we want to give them actually as large a pack
12 as we can. When it goes to heavier sheet counts we do give
13 them larger packs. The problem is the retailer is selling
14 their square footage and they want as much and as many
15 dollars out of each square foot in their store, so they're
16 then pushing the smallest pack that makes sense simply for
17 space.

18 MR. DIEHL: So the sheet may not be any smaller,
19 when you unfold it it might be the same size, is that
20 correct?

21 MR. TEPE: It often is. It often is the same
22 size. So it's a matter of are you selling it for one
23 occasion gift wrap, somebody goes in and buys a gift, buys a
24 bag, buys a pack of three or four sheets of tissue and gets
25 out; or someone who's going in and says you know I wrap 10

1 gifts a month so I'm going to go buy 40 sheets and do that
2 type of thing; or 50 gifts and I'm going to go buy a club
3 pack that has 350 sheets.

4 MR. DIEHL: What about the size of the sheet that
5 is sold folded compared to the size of the sheet that's sold
6 in ream form? Can you compare the sizes of those two
7 sheets?

8 MR. TEPE: The common sheet sizes in this package
9 are 20x20, 20x24, 20x26 --

10 MR. DIEHL: And just for the transcript you're
11 indicating toward a folded package there.

12 MR. TEPE: Yes. Folded packages. 20x20, 20x24,
13 20x26, 20x30 is the range of sizes that they normally come
14 in.

15 MR. DIEHL: And ream product might be --

16 MR. TEPE: Or stock ream program is 20x30.

17 MR. DIEHL: So once the consumer product is
18 unfolded you get into generally the same range as the ream
19 product, is that correct?

20 MR. TEPE: Yes.

21 MR. DIEHL: What is a folded ream then, which
22 you've talked about as the club packs. I'm having trouble
23 picturing that.

24 MR. MAGRATH: Mr. Diehl, a lot of reams are sold
25 folded called choir packs, because it's folded over, and I

1 asked Mr. Tepe about this at the plant, he said just some
2 customers are just used to getting it that way, it takes up
3 less shelf space, and that's what they do.

4 MR. DIEHL: I'm having trouble thinking, when I
5 open a package of folded and then I open a package of folded
6 ream, what difference will I see? I don't understand that.

7 MR. TEPE: I don't think there is a difference. I
8 think a club pack's a folded ream and it's still a space
9 issue with a retailer. It's either the space they have on
10 their shelf, the space they have on a pallet, the space they
11 have under the counter whether they want them flat or
12 folded. So there are really just different sheet counts
13 based on what it's going to be used for and -- But the sheet
14 sizes overlap each other, and the fold is custom.

15 We sell 55 colors, I'm pretty sure that Flower
16 City is the same way with their 70 colors. They sell them
17 flat and they sell them folded.

18 MR. DIEHL: There's this one thing that's just
19 bothering me. You're using a different word. You're saying
20 one is a folded package and one is a folded ream so there's
21 some difference that you're communicating by those different
22 terms and I just don't understand what you're saying.

23 Is it that perhaps in the folded, they're all
24 laying on top of one another and then they're folded?
25 Whereas in the folded ream they're folded and then stacked

1 one upon another? I don't understand the distinction.

2 MR. TEPE: I don't think there is one. It's maybe
3 the, I mean this is -- Go ahead, George.

4 MR. JONES: Do you want me to take you through the
5 physical process and maybe the two Freds can --

6 MR. DIEHL: I know everybody's, we've kept you
7 here a long time. I just want to try to understand when
8 you're telling us no, no, that's folded ream, that's not
9 folded, that hasn't communicated to me yet what the
10 distinction is.

11 MR. JONES: A flat ream would just be the sheets
12 come out and get packaged flat.

13 We have something else, it's something that's used
14 in the retail packaging business called choir folded, and
15 that's every 24 sheets of 20x30 are folded in half so you
16 end up with a 480 count ream and there are going to be 20
17 choirs of 24 sheets each, and ends up in a 15x20 package.
18 They like that because it's easier to disburse the product
19 and it's also easier to store it as well, and it's UPS-
20 shippable.

21 MR. DIEHL: And that's called a choir pack.

22 MR. JONES: That's called a choir folded ream.
23 Yes. Choir folded ream.

24 MR. DIEHL: When there's 24 and then you perform
25 the folding operation.

1 MR. JONES: Yes.

2 MR. DIEHL: What is folded?

3 MR. JONES: Folding would be something like this
4 where you would bring it down to an even smaller size.

5 MR. DIEHL: Are they stacked one on top of another
6 before you fold?

7 MR. JONES: We would bring out, in this case it's
8 a five sheet package. We would unwind five sheets at a
9 time, cut it, it would go up, hit some tuckers that would
10 tuck it one way, then it would go through and get tucked
11 again and again, and then finally a cross fold and it would
12 come out in this size package.

13 MR. DIEHL: Is the difference that -- I'm so
14 sorry. I know people must be so bored with this but I have
15 to get this. I'll give up in a second.

16 Is the difference that in folded that you have one
17 group of papers that are folded and then it is packaged. Is
18 that in distinction with a folded ream in which you have a
19 unit of maybe 24 that are folded, and then another unit of
20 24 that are folded, is that the distinction? No.

21 Okay I'll give up there.

22 MR. HARTQUIST: Let the lawyer take a whack at
23 this.

24 MR. DIEHL: All right.

25 MR. HARTQUIST: You are asking questions that are

1 very reflective of what went through with our clients in
2 putting this case together and you're illustrating the
3 difficulty that we had also in defining what the like
4 product should be and why we came to the conclusion that we
5 did, that essentially folds and reams are the same like
6 product in the tissue category.

7 But if I can be very simple about it, what they
8 call in the industry, and you all can correct me if I'm
9 wrong here, what they call folds tends to be a smaller
10 number of sheets in a small bag. When you unfold it you get
11 a size that may be the size that's in a ream or in a club
12 pack.

13 So in a ream you have essentially a large umber of
14 sheets in a big bag flat.

15 What they've been referring to as a folded ream or
16 as club pack is essentially an intermediate type of
17 packaging where you take a flat sheet of paper, you fold it
18 over into kind of a soft fold because it's a lot of paper,
19 and you put it in a big bag. The bat's not as big normally
20 as the ream bag. It's the same stuff, though, folded over
21 once and put into a smaller sized bag.

22 The number of pieces that are in those bags varies
23 tremendously along this spectrum, from 100 to 500, whatever
24 in between.

25 But your questions, Mr. Diehl, really illustrate

1 why we believe that these products all fit in the same like
2 product category along this continuum.

3 MR. DIEHL: I think you're also saying that
4 everyone understands this except the lawyers.

5 (Laughter)

6 MR. DIEHL: All right. Those are all the
7 questions I'll burden you with. Thank you very much.

8 MR. CARPENTER: Any other questions? We'll take a
9 short break until about 12:25 and then we'll ask the
10 Respondents to come forward for their testimony. Thank you
11 very much for your testimony.

12 (Recess taken)

13 MR. CARPENTER: I know some people are still
14 coming in but it's getting late and I know some people have
15 early flights they need to catch this afternoon so I'd like
16 to get started.

17 As soon as you're ready, please proceed.

18 MR. MENEGAZ: Mr. Chairman, members of the staff,
19 this i Greg Menegaz. For the record, I'm from the law firm
20 of Sonnenschein Nath & Rosenthal representing importers here
21 and speaking on behalf of Respondents.

22 What we thought we'd do is we'd just kind of have
23 each of us introduce our own clients and have them testify
24 kind of in the order that they're seated. Then at the end
25 Richard Ferrin of Hunton & Williams will give some

1 concluding remarks on threat.

2 With that introduction I'd like to introduce Andy
3 Kelly who is President of Cleo, Inc. and Crystal Creative
4 Products.

5 MR. CARPENTER: Very good. Thank you.

6 MR. KELLY: Good afternoon, Mr. Chairman and
7 members of the Commission. I am Andy Kelly, President of
8 Cleo, Inc. and its subsidiary, Crystal Creative Products,
9 Inc., both of which are headquartered in Memphis, Tennessee.
10 I have been an executive in the tissue business for the past
11 14 years including production, converting, purchasing, sales
12 and product development. I'm here to present our company's
13 perspective on issues before the Commission in its
14 preliminary investigation of the antidumping petition on
15 certain tissue paper products and crepe paper products from
16 China as they relate to tissue paper products. I very much
17 appreciate this opportunity.

18 Cleo and Crystal are part of CSS Industries, Inc.,
19 a listed company on the New York Stock Exchange. Through
20 its subsidiaries, CSS is engaged in the design, manufacture,
21 procurement, and sale of seasonal and social expression
22 products to mass market retailers.

23 Cleo and its subsidiary Crystal specialize in
24 providing gift wrap, gift bags, and decorative gift tissue
25 to stores for resale to consumers. Cleo's sister companies,

1 Berwick Offray and Paper Magic Group, specialize in ribbons
2 and bows, seasonal greeting cards, paper decorations, as
3 well as other products. CSS employs over 5500 people in
4 the United States at our seasonal peak.

5 While the petition treats the tissue in this
6 proceeding as one single product, the petition actually
7 encompasses two distinct tissue product lines, namely tissue
8 purchased by retailers as a supply for in-store wrapping
9 which Cleo normally refers to as retail tissue, which I will
10 refer to as bulk tissue in this presentation, and tissue
11 purchased by retailers as merchandise for resale to
12 consumers which we refer to as consumer or gift wrapping
13 tissue.

14 Because of their different end uses there are
15 significant physical, production and marketing differences
16 between bulk and consumer tissue.

17 For example, bulk tissue is sold as flat sheets in
18 reams that common contain 480 sheets and it requires only
19 functional packaging in poly bags.

20 This is an exhibit of a ream of tissue not
21 packaged for resale to consumers, no UPC markings or
22 pre-pricing as well.

23 Consumer tissue, on the other hand, normally is
24 sold folded in relatively small quantities -- generally five
25 to forty sheets -- is attractively packaged and customized

1 for the retailer and is characterized by colors, art work
2 and design.

3 These packages marked Exhibit 2 through 4 are
4 examples of various types of consumer tissue that we sell.
5 This would be referred to as a 4x10 pack, an 8x20 with
6 multiple step designs, and here would be another 4x20 with
7 mixed tissue, die cutting, mylar sheets, and tissue all
8 combined.

9 Bulk tissue and consumer tissue are sold through
10 entirely different distribution chains. Bulk tissue is
11 purchased by retailers as a supply item while consumer
12 tissue is purchased by retailers as merchandise for resale
13 to consumers. Production of bulk tissue is relatively
14 straightforward, consisting principally of processing jumbo
15 rolls of tissue paper through a sheeter that cuts the rolls
16 into sheets, then stacks and seals the sheets and bags. In
17 some instances there is printing or coating before cutting.

18 Production of consumer tissue is a more involved
19 process which starts with pre-production design of the
20 tissue and its packaging. Manufacturing of consumer tissue
21 from jumbo rolls requires not only cutting but folding,
22 collating, and packaging operations that are not performed
23 for bulk tissue, as well as special decorative treatments
24 for many products such as die cutting, spot glitter
25 printing, and hot stamping.

1 Consumer tissue is sold to retailers pre-packaged
2 for sale to the consumer. Packages may contain different
3 quantities of a single color or a combination of colors and
4 types of tissue. Possibilities include white, colored,
5 rotogravure printed, die cut, hot stamped and glitter tissue
6 and also sheets of non-subject merchandise such as mylar,
7 fabric, non-woven and poly.

8 Consumer tissue sales are highly seasonal, as the
9 year-end holidays account for the largest portion by far of
10 consumer purchases. Retailers do not want to take delivery
11 of holiday merchandise until shortly before the Christmas
12 selling season starts. Therefore production and shipment of
13 consumer tissue is not spread evenly throughout the year but
14 is concentrated heavily in the latter part of the year.

15 Approximately 75 to 80 percent of Cleo's sales of
16 consumer tissue occur in the last five months of the year.
17 This means that during the preceding seven months Cleo ships
18 only 15 to 25 percent of its annual volume.

19 Capacity in this industry really is a measure of
20 ability to meet this seasonal demand, not an annualized
21 number which assumes a constant level of production
22 throughout the year.

23 Consumer tissue products have a significant lead
24 time as retail customers and Cleo develop concept and
25 artwork for the tissue as well as customized packaging.

1 Cleo works with its customers to jointly plan gift packaging
2 sales programs that include different configurations for
3 each customer. In order to be competitive Cleo must offer
4 on-trend sophisticated design concepts, quality products and
5 on-time delivery. Indeed, given the highly seasonal nature
6 of the product, reliability of delivery in a very narrow
7 window is absolutely crucial.

8 At one time Cleo sourced its consumer tissue
9 purchases almost exclusively with Seaman Paper Company.
10 Cleo and Seaman had a supply agreement and a corresponding
11 lease agreement pursuant to which Seaman supplied consumer
12 tissue products to Cleo and Cleo leased a tissue folding
13 machine to Seaman.

14 Relations between Cleo and Seaman became strained
15 under this arrangement for a variety of reasons including
16 late delivery, production by Seaman for a competitor of
17 Cleos using the Cleo equipment, and general non-
18 responsiveness to the evolving product requirements of Cleo
19 in the marketplace.

20 At the end of 2000 Cleo gave Seaman notice of
21 termination of the lease agreement, since Cleo no longer
22 wanted the type of banding the leased folder provided and
23 did not want Seaman to use Cleo's folder to supply a
24 competitor. This termination also had the effect of
25 terminating the supply agreement.

1 Cleo advised Seaman that it was developing an
2 alternative source of supply for a portion of its needs and
3 that it no longer planned to sole source its requirements
4 with Seaman but indicated that it would continue to make
5 substantial purchases from Seaman. Seaman's response was
6 that it would not sell product to Cleo unless it was Cleo's
7 exclusive supplier. Since Cleo had determined that it
8 needed an additional source of supply in order to overcome
9 problems encountered with Seaman, this meant that Seaman was
10 no longer available as a supplier to Cleo due to Seaman's
11 position of all or none of Cleo's business.

12 As the relationship was terminated Seaman made a
13 claim for payment for various rolls of tissue stock that it
14 had produced in anticipation of 2001 orders from Cleo as
15 well as certain leftover stock from prior years. In order
16 to fully resolve all claims and disputes between Cleo and
17 Seaman, Cleo offered to place purchase orders for converted
18 tissue products at prices quoted by Seaman sufficient to
19 absorb the entire stock and Seaman ultimately accepted this
20 proposal which was the basis for Seaman's 2001 sales to
21 Cleo.

22 In 2002 Cleo was presented with an opportunity to
23 acquire Crystal Creative Products, a designer, manufacturer
24 and marketer of convenience gift wrap products including
25 gift tissue, gift bags, and related specialty products.

1 In addition to its design and marketing assets,
2 Crystal owned and operated a plant in Maysville, Kentucky at
3 which it converted purchased jumbo tissue rolls into bulk
4 and consumer tissue products. Prior to being acquired by
5 Cleo in October of 2002 Crystal was under common ownership
6 with the company that owned and operated a paper mill that
7 supplied Crystal with jumbo tissue rolls used by Crystal in
8 its converting operation.

9 As a condition of purchasing Crystal, Cleo
10 required the mill to enter into an agreement to supply jumbo
11 tissue rolls to Crystal during the 2003 calendar year.
12 However, in early 2003 the mill announced that it was
13 closing due to the loss of a major customer for commodity
14 paper products, a 30 pound kraft paper, not tissue, for a
15 domestic converter. Therefore it was unable to fulfill its
16 2003 supply obligation to Crystal and shortly thereafter the
17 printer that supplied rotogravure printed tissue to Crystal
18 became unavailable as well.

19 At that time Crystal was sourcing a limited amount
20 of its folded tissue requirements with a supplier in China.
21 Given the loss of the tissue roll input supply that it had
22 relied on for the Maysville converting plant, Crystal
23 decided to place its entire consumer tissue program with the
24 Chinese supplier and to close the plant.

25 Crystal sold the bulk tissue portion of its

1 business to Seaman in July 2003. That sale included bulk
2 tissue sheeting equipment, inventory, customer lists, and
3 use of the Crystal name in the bulk tissue market for one
4 year.

5 In connection with this sale Crystal and Cleo
6 entered into an agreement with Seaman in which they agreed
7 not to compete with Seaman in the bulk tissue business
8 sector, thus leaving Crystal, like Cleo, solely in the
9 consumer tissue market.

10 Thus the businesses of Cleo and Crystal have
11 substantially evolved in the past few years driven by
12 changes in the consumer tissue market that they serve.

13 Consumer tissue is not a stand-alone product, but it is
14 part of a product line that also includes color and design
15 coordinated gift bags, gift wrap, and ribbons. The bag,
16 tissue, ribbon and wrapping paper I'm about to show, and we
17 have marked as Exhibit 5(a) through 5(d), are one example of
18 these coordinated products.

19 Here you have the banded tissue product, again,
20 collated and mixed with different types of colors and
21 tissue. Here you have the matching gift wrap. Here you
22 have the matching ribbon. And here you have the matching
23 gift bag, so coordinated product and design are critically
24 important in this particular industry.

25 These products are becoming more sophisticated

1 each year and Cleo and Crystal must keep up with the trends
2 in order to maintain their position as market leaders not
3 only for tissue but for their entire gift packaging line.

4 We have found that our present supplier in China
5 provides the type of support, flexibility and responsiveness
6 for our business that we need in order to effectively serve
7 our customers in this environment.

8 First, let's discuss responsiveness to our
9 sophisticated product line. Cleo designs seasonal programs
10 and maintains a show room to display our concepts to
11 customers and we work with customers to create the packages
12 they wish to purchase. This past year we had over 50
13 customers visit us at our Memphis, Tennessee show room.
14 Those would be major retailers.

15 Products include packages of plain white tissue,
16 packages of colored tissue, packages containing combination
17 of white and colored tissue, and packages containing
18 combinations of tissue and sheets of mylar, fabric, non-
19 woven products. In addition, sheets may be die cut,
20 embossed, holographic or spot decorated with glitter,
21 rotogravure printed or hot stamp printed. Our Chinese
22 supplier is able to provide virtually any combination
23 desired by our customers. Domestic suppliers do not offer
24 certain types of sheets such as die cut and hot stamped and
25 they're not set up to do the collating necessary to provide

1 these combination packages. The combination packages being
2 the key.

3 Not only the tissue but also the packaging is an
4 inherent part of the product. Our customers wish to present
5 the most attractive packaging to their customers and take
6 great care in designing the printed portion of the packaging
7 to advance their own program concepts.

8 Convenience is also an element in certain types of
9 packaging such as resealable poly bags. In our domestic
10 purchases we encountered various types of packaging
11 problems. For example, our domestic supplier was unable to
12 provide or offer resealable packaging, and we encountered
13 tissue damage when tissue stuck to bands on fully banded
14 product.

15 While the domestic industry has largely automated
16 the packaging process, this automation limits packaging
17 choices available to the customers for their merchandising
18 needs.

19 Here is an example of tissue folds in an automated
20 packaging that is not as aesthetically appealing as the
21 resealable package from China.

22 This would be an example of packaging done on an
23 automated machine, in-line. The seal is on the back. We've
24 been told by our retail customers this is undesirable, this
25 would be an example of packaging very similar to what the

1 Petitioner showed you. Here is the exact same packaging
2 that is resealable, a much tighter fit, merchandise on the
3 shelf, much more aesthetically acceptable.

4 Basically the domestic industry has indicated or
5 took the position that we, Cleo, need to buy what they would
6 manufacture versus what our customers in the market wanted.

7 Second, our current supplier provides timely
8 delivery. Timely delivery and ability to provide peak
9 quantities within a relatively limited window are crucial.

10 When we were purchasing domestically we had a
11 continuing problem of late delivery due to the impact of
12 peak seasonal demand during that critical period. We now
13 are able consistently to provide on-time delivery to our
14 customers. Part of this is due to greater flexibility of
15 the Chinese supplier's manufacturing process. It is
16 questionable whether the domestic industry has the folding,
17 printing, collating and tissue manufacturing to supply the
18 seasonal tissue demand.

19 Third, the product is available at competitive
20 prices. Competitive pricing in the consumer tissue market
21 place is driven not by foreign imports but by the purchasing
22 power and intense cost cutting efforts of mass retailers.

23 While we have seen a slight decline in pricing to
24 retailers in the past three years, this trend is not limited
25 to consumer tissue. It holds true also in many if not most

1 of the other products sold by Cleo and our sister companies
2 such as wrapping paper and gift bags.

3 Fourth, our current supplier does not interfere
4 with our customer relationships. Cleo and Crystal have a
5 long history and a well established presence in the gift
6 wrapping market and we work diligently to provide service
7 and quality to our customers and to maintain these
8 relationships.

9 When I joined Cleo in 1999 after having been
10 President at Crystal, I was surprised to find that Cleo's
11 sole supplier for tissue was also selling to Cleo's
12 competitors as well as direct to our market. This inherent
13 conflict of interest is one of the considerations that led
14 me to conclude that it was necessary for Cleo to develop
15 alternative sources of supply.

16 In our purchases from China we do not face this
17 complication. Our Chinese supplier recognizes the valuable
18 role we play in serving retailers and does not try to sell
19 to our customers while at the same time trying to sell to
20 us.

21 Thank you for your attention. I hope that my
22 comments have added to the Commission's understanding of the
23 consumer tissue market as perceived by companies that have a
24 direct interest and longstanding participation in that
25 market. I will be pleased to respond to any questions that

1 you or your staff may have.

2 MR. THOMPSON: Thank you. Next, we'll hear from
3 Target Corporation. My name is George Thompson from the law
4 firm Neville Peterson, appearing on behalf of Target. I'm
5 accompanied by Tony Dembski-Brandl, the senior counsel for
6 Target brands. The testimony will be presented by Bonita
7 Rooney, who is a senior buyer at Target.

8 MS. ROONEY: Good afternoon. I'm Bonita Rooney,
9 the senior buyer of Department 53 which is the stationary
10 and gift wrap department for Target Stores. Target Stores
11 is a division of Target Corporation and is one of the
12 largest mass merchandise retailers in the United States.

13 In 2003 Target Stores sold over \$40 billion in
14 merchandise and employed over 280,000 people.

15 My responsibilities in this position include the
16 purchase of consumer tissue paper products of the types
17 subject to this investigation. I have held this position
18 for 2.5 years. I also am involved in the purchase of
19 greeting cards, every day gift wrap, roll wrap and party
20 ware.

21 Before this position I held other buyer and
22 merchandise positions in Target where I have worked for 11
23 years total.

24 Consumer paper, as the name indicates, is sold to
25 consumers. At Target we call them guests. It is used

1 primarily for stuffing gift bags. Consumer paper is almost
2 always sold in two configurations; in sheets folded in poly
3 wrap with a resealable bag which is important for Target,
4 printed at the top, and in this instance it's peggable, and
5 sheets in a banded presentation. For us at Target this is
6 for sales presentations.

7 Bulk paper is purchased in reams, delivered in
8 cardboard boxes similar to what you see there and it's not
9 available for resale.

10 In the instances of the consumer paper is is
11 labeled with UPCs so it can be resold. The bulk paper,
12 which is in reams, does not have UPCs and cannot be resold.

13 My team purchases only consumer paper such as the
14 example that I showed you here. These products are sold to
15 guests at retail. The consumer tissue paper is almost
16 always marketed, displayed and sold with coordinating gift
17 bags.

18 Here is an example -- gift bags with coordinating
19 tissue. As you can see, the designs of some of our bags and
20 consumer wrap complement each other. Indeed, the color
21 pallets are identical.

22 The remainder of our products are all developed
23 and presented to be part of an events-based marketing
24 strategy to be sold to guests who have come to Target to
25 purchase gifts.

1 For example, we have bags and tissue that
2 celebrate the birth of a child, a wedding, birthdays, etc.
3 We dedicate a great deal of the selection process to
4 developing creative and innovative product. By designing
5 unique and exclusive products, attending trade shows,
6 coordinating programs between multiple vendors and having
7 very demanding color match procedures, our programs are
8 designed to offer guests creative and highly differentiated
9 options for gift presentation.

10 The market for gift bags and coordinating tissues
11 has increased immensely during my 2.5 year tenure in
12 stationary and gift wrap. Our customers have shown a growing
13 preference for gift bags in place of the traditional roll
14 wrap. From my perspective there is a growing demand and a
15 growing market for consumer tissue paper which is directly
16 proportional to the increase in use of gift bags by gift
17 givers.

18 The floor space dedicated to these products has
19 grown almost 20 percent in the last 2 years, while that for
20 roll wrap has fallen proportionately.

21 Target has three different markets for its
22 consumer tissue paper which we call good, better and best.
23 Although each has its own designs and price points, all are
24 designed as part of an overall gift wrap strategy.

25 Good might also be referred to as our opening

1 price point category. It amounts to a small percent of my
2 overall sales. Better represents a step upward for the
3 guest offering unique design and color options but not as
4 much color saturation, quality finishes and embellishment.
5 Best is the highest quality Target sources.

6 I would like to describe our design for purchasing
7 in our better and best categories which together account for
8 about 90 percent of our sales of consumer paper.

9 In the better category Target differentiates its
10 product by offering four-foot color statements over a 36
11 foot run with multi-colored print components that cross
12 these color statements. Here is an example. We would have
13 three four-foot statements in these colors. A dominant blue
14 statement that includes gift bags and solid color tissue.
15 We would have a four foot statement of purple with the same
16 components. Then with the turquoise in the same components.
17 Then we would have the complementary print patterns that
18 have all three colors that can be used across the full 12
19 feet here, and mixed and matched.

20 These designs are multi-occasion but the packing
21 is the same packaging we offer in our best product line.
22 These color statements allow the guest to creatively mix and
23 match prints with solid color gift bags.

24 We developed these designs and color pallets
25 internally. Our trend team shopped all of the major shows

1 and markets and works closely with my team to develop a
2 product line that will be fresh and exciting to our guests.
3 This program may be in our stores for up to a year at a
4 time. Our vendors must be able to fill our timing
5 requirements and have sufficient capacity to keep the
6 shelves stocked as well as meet our requirements on color,
7 quality and packaging.

8 Since such a large amount of product space is
9 devoted to this category we would only entrust it to a
10 vendor that has a very good track record with Target.

11 For our better products we utilize a reverse
12 auction. There is approximately an 18 month lead time from
13 concept to when the product hits the sales floor.
14 Approximately ten months out we begin discussions with
15 suppliers and attend trade shows. We evaluate potential
16 suppliers on the basis of their volume capacity to supply
17 us, packaging capabilities, their reliability and the
18 quality and consistency of their product.

19 Only those potential suppliers that pre-qualify on
20 these non-price factors will be invited to participate in in
21 the reverse auction. In order to pre-qualify we must also
22 have prior experience with the vendor. Normally a vendor
23 will propose a small program or a special purchase as a type
24 of entre into Target, and Target uses this as a bit of a
25 test period.

1 In our best category we offer a highly
2 differentiated product frequently with unique features to
3 appeal to our guests. Target relies heavily on the consumer
4 tissue vendor to coordinate with the other suppliers in the
5 department, especially those that provide gift bags. We
6 expect these vendors to bring to Target the most fashionable
7 trends and experience with manufacturing and sourcing unique
8 products.

9 Target has built its reputation by being first to
10 market with innovation and unique new technologies and these
11 seem to be coming from foreign manufacturers.

12 As with our own internal trend teams, we expect
13 that these suppliers will have shopped all of the major
14 shows and markets. We also expect that they will have a
15 design team on staff to help develop innovative products.
16 Design and product innovation are tantamount in our best
17 category of merchandise.

18 If I can just show you a little bit of what we
19 would call best, it would be real unique designs, always
20 added embellishments. In this instance it's a die cut pop-
21 off.

22 In our consumer tissue then we would use die cuts,
23 we would use mylar, pearlized papers, and so forth.

24 Our best category is typically purchased by what
25 we call a competitive line review or a COR. This involves

1 Target inviting potential suppliers to prepare sample
2 consumer paper lines and display them as they would appear
3 in our stores, complementing pre-determined gift bag and
4 roll paper assortments. We meet with each supplier to
5 review the designs they have proposed, the quality of what
6 is being presented, and the price of the product. It is not
7 unheard of for the lowest price vendor to lose a COR because
8 design and execution is so critical. The vendors that are
9 outstanding in this category provide innovative designs,
10 unique finishing, collated presentations, unique print
11 capabilities, the predetermined package that we've
12 designated and short run capacities.

13 Target Corporation also purchases bulk tissue
14 paper like I showed earlier. However, such products are
15 purchased by a completely different organization within
16 Target. They're called non-retail procurement. They also
17 obtain office supplies and store supplies for all Target
18 corporation operating companies including Mervyns and
19 Marshall Fields. These items are given away to guests with
20 purchases either with a give-away box or to wrap merchandise
21 at the checkout, particularly fragile items. They cannot be
22 sold because there is no UPC assigned to them.

23 Bulk tissue, besides not being available for sale
24 at the store is also packaged differently than consumer
25 paper, being delivered to the store in that plain brown box

1 you see here that contains the ream of paper.

2 I might speculate that the use of bulk paper has
3 declined in the past few years as high end retailers that
4 traditionally have used it to wrap most purchases and to
5 line shopping bags have undergone declines in same source
6 sales over the past few years.

7 At the same time, mid-tier retailers are looking
8 for ways to decrease costs and are less likely to offer
9 these sort of perks with purchase.

10 Target has a vigorous vendor screening program
11 that weeds out all unqualified vendors. To the best of my
12 knowledge the domestic consumer paper industry has not
13 qualified to participate in my consumer paper business at
14 Target. It may also be that they have not indicated a desire
15 to participate.

16 It is my understanding that the U.S. industry does
17 not have the same experience in unique finishing or die
18 cutting capabilities as the foreign manufacturers.

19 I also understand that U.S. manufacturers are not
20 able to provide us with the hand made papers. We have an
21 example of that here. And the collated presentations, you
22 can see where we have multiple papers in a pack. We like
23 them collated versus just laying on top of each other so the
24 guests can see the number of papers and the designs that are
25 in there.

1 Those are a huge part, all of the elements that I
2 talked about, a huge part of our best category.

3 In addition I understand that the domestic
4 industry is not able to provide us with the superior
5 packaging capabilities that are currently part of Target's
6 program. We find that it's very important to have the
7 resealable packages on our peg tissue. We know that the
8 guest likes to touch and feel the product and this
9 eliminates a lot of our damage markdowns in the stores.
10 And also with our banded product, having the simple band
11 over the top allows the to feel and see, especially when we
12 have the unique finishes applied to them.

13 Finally, I believe U.S. manufacturers are not
14 always willing to make small production runs that allow for
15 a much larger product offering in our stores and a just-in-
16 time replenishment process. Target's holiday trim
17 department which buys for the holiday season also imports
18 significant quantities of consumer tissue paper. Their
19 imports occur exclusively in the third quarter as they
20 prepare for the holiday season. I have personal knowledge
21 that the procurement process in the trim department is very
22 similar to the process I have outlined above.

23 We do also experience an increase in the demand
24 for bulk paper during the holiday season. As you can
25 imagine, retail sales increase at that same time for the

1 bulk paper demand increases.

2 Thank you for your time this afternoon.

3 MR. PERRY: My name is William Perry of the law
4 firm Garvey Schubert & Barer and I'm here representing
5 several of the importers of the case. I'm accompanied by
6 associate, Patrick Briscoe.

7 I'd just like to make three brief points at the
8 moment.

9 As mentioned before, this is a ream. This is a
10 ream of tissue paper. And consumers don't want to buy
11 reams.

12 I mentioned that we had tissue with wrapping paper
13 and ribbons in one package. The Petitioners denied that it
14 exists. It exists. Here it is.

15 Finally, one other point. The point was made that
16 newsprint can be a competitive source with tissue and they
17 pointed to the white tissue. What they didn't point to was
18 the number two tissue which is sold to companies like TJ
19 Maxx and other ones. This is very very low grade tissue,
20 and for that newsprint can be a substitute.

21 Al Scott, could you please speak?

22 MR. SCOTT: Good afternoon. My name is Alfred
23 Scott and I'm the CEO of Glitterwrap, Incorporated. I
24 founded Glitterwrap 17 years ago, directly out of college
25 with my sister Melinda Scott Cassman, primarily selling

1 mylar tissue sheets and shreds, a new innovative item to the
2 marketplace and to the tissue market at the time.

3 Today design focus by Glitterwrap provides itself
4 as a design leader and innovator of packaging and design.
5 We stock a full line of over 3000 SKUs covering wrap, bags,
6 ribbons, bows, photo albums, table ware, tissue, crepe, and
7 much more.

8 Our customers almost always purchase a full range
9 of our products at one time.

10 I'd also like to exhibit our catalog that will
11 show many of these 3000 SKUs. It will also outline items
12 such as gift bags with tissue. It will also outline many of
13 the items regarding tissue paper and all the different forms
14 that we carry outside of tissue.

15 Today I'm primarily covering crepe streamers since
16 no one else is covering it today at this meeting.

17 The Petitioners that manufacture crepe all sell
18 direct to the retailers, our customers. We wish not to buy
19 from a competitor due to the channel distribution conflict.
20 Seaman Tissue and American Crepe want to sell us as well as
21 our customers. For example, American Crepe's web site, you
22 can print an order form. Minimum per color, one dozen, and
23 the order is shipped free freight on a \$150 order.

24 Seaman Tissue and American Crepe could easily
25 undercut us and almost every other company they've listed as

1 crepe importers based upon price, since the price I sell my
2 customer is much higher than the price Seaman Tissue and
3 American Crepe have quoted us.

4 For instance, we have been unable to sell crepe
5 streamers to Dollar Tree stores despite bids over a three
6 year period because Dollar Tree buys only Seaman --
7 presumably at a lower price or a better quality.

8 It should also be noted that Dollar Tree used to
9 import crepe streamers from China but switched to Seaman
10 about a year and a half ago, I believe.

11 This is not one that would expect to see in the
12 U.S. industry we're being hammered by imports from China.

13 I believe the domestic suppliers are tired of the
14 crepe suppliers constantly trying to sell direct and
15 bypassing them, thus companies are looking for a source that
16 does not sell direct. Again, I stress the U.S. crepe
17 suppliers could undercut most if not all the importers when
18 selling to our customers.

19 Moreover we have been unable to expand our crepe
20 customer base materially beyond the largest single customer
21 we sell which accounts for 99.9 percent of our crepe
22 revenue. Despite our marketing efforts, sales to other
23 customers still represent less than 1/10th of one percent of
24 total crepe streamer business. We simply have been unable
25 to compete with Seaman and American Crepe when it comes to

1 crepe streamers.

2 Our primary crepe customer remains with us because
3 we supply them with a broad, diverse range of products and
4 the customer prefers to deal with a supplier of multiple
5 products. It's my understanding that this is also true for
6 the importers listed in the petition. I believe they all
7 carry crepe streamers as one of many products they sell and
8 they attract customers largely because they offer one-stop
9 shopping, otherwise known as bundling.

10 Petitioners also list crepe bows in the petition.
11 Business for this item for Glitterwrap has never
12 materialized despite our carrying it for three years. I
13 believe this is another example of how the market has
14 changed.

15 The packaging of crepe has also begun to change
16 and I'd welcome you to ask me further about that in the
17 question and answer period to elaborate.

18 In our experience the U.S. industry has shown less
19 flexibility in meeting the demands of crepe retailers and
20 distributors. For instance, the last time Ted Tepe from
21 Seaman Tissue quoted us in 2002, he said that if we had
22 given them the business at that time it would be about three
23 months before they could handle the volume as they had just
24 taken on a huge new piece of business.

25 We asked Seaman at that time what if we split the

1 business with you? They replied they would only take on the
2 business if they had it all.

3 On top of Seaman being a competitor, why should we
4 work with them when they cannot even handle our requirements
5 in a timely fashion? When they are busy, who are they going
6 to service first? Glitterwrap or the retailers they already
7 service directly?

8 The difference in quality between Chinese crepe
9 and the U.S. is huge. The American-made crepe is much much
10 brighter in color than Chinese crepe. The quality of the
11 crimping is much more uniform and consistent with U.S. made
12 crepe which goes through the creping process which I learned
13 today than with the Chinese crepe which I believe is just
14 embossed. The consistency of color matching from run to run
15 is superior with U.S. made crepe. The crepe stock paper
16 from China is lighter and thinner than it is in the U.S..
17 Generally I believe crepe in China is 14 grams per meter and
18 the U.S. is 17 grams per meter.

19 I believe the Chinese crepe is generally of lesser
20 quality because of the manufacturing process which we are
21 told by our Chinese supplier is very different than that in
22 the U.S.. In China, manufacturers take white tissue paper,
23 gravure print it to get the color, and then emboss it. In
24 the U.S. they die the pulp, extrude it to make the crepe
25 which results in a much better quality and is much more

1 expensive and highly specialized manufacturing process which
2 was the term they used today.

3 The market for decorating has come a long way from
4 the simple paper crepe streamer decoration. Some examples
5 of new products include metallic crepe streamers made from
6 mylar, paper garlands, die cut garlands, mylar garlands, and
7 general decorations which I believe all these products are
8 taking away from the overall volume of the crepe streamer
9 market.

10 In the past year and a half that I've been selling
11 this one particular retailer I've seen a 12.5 percent
12 reduction in the amount of SKUs that they carry in the 81
13 foot. It's because the other products are taking market
14 share away from them.

15 I have a huge slew here of samples that are
16 competing with this item which again, I'd welcome to show
17 them to you in the question and answer, that I think is
18 taking away from this marketplace.

19 In conclusion, the crepe streamers coming out of
20 China are of lesser quality than that of the U.S. as can
21 clearly be seen with comparing the two. I believe this
22 difference is a function of different manufacturing
23 processes.

24 There are not that many companies importing crepe.
25 Glitterwrap basically services one retailer. Dollar Tree,

1 probably the single largest buyer listed in this petition is
2 buying from Seaman Tissue now, although they used to import
3 streamers from China.

4 Based on this I do not believe there has been an
5 material impact on the domestic manufacturers. I believe
6 the market for crepe in general in the U.S. has been
7 declining due to other new, innovative ways to decorate for
8 a party.

9 I see this as the way for two domestic crepe
10 manufacturers, Seaman Tissue and American Crepe, to
11 eliminate all distributors of this product. This will allow
12 them to go directly to all of our retail accounts.

13 If this were only a price issue these two crepe
14 manufacturers could sell directly and take all the business
15 away from the importers who resell this product. as Seaman
16 has already done with Dollar Tree.

17 Regarding tissue paper, as I mentioned, I'm taking
18 my time here today to focus on crepe paper, however,
19 consumer tissue paper is of equal importance to us.

20 I would like to state that I agree with Andy Kelly
21 from Cleo and Bonita Rooney from Target. I want to stress
22 that innovation has driven the consumer tissue market and we
23 can no longer live with the attitude of the domestic
24 manufacturers -- we must buy what they manufacture rather
25 than what our customers want.

1 I have a Seaman's 2001 catalog that was sent to us
2 in the mail. Nowhere do they mention die cut, hot stamping
3 and all the other forms in the marketplace today. They do
4 mention quite a few other things that they do, but none of
5 those items in their brochures.

6 So if these products did exist with this company,
7 how are we, the buyers of this product, supposed to know
8 about it if they're not showing it and marketing it? I
9 don't believe they had it.

10 Most die cut tissue also is die cut in the
11 register and that was a question that was asked earlier. We
12 are printing on tissue and then die cutting it in register.
13 I don't think that is something that can easily be done in
14 the U.S. market without expensive equipment.

15 I also have many other samples of tissue paper
16 here. Many of the things that we have been very innovative.
17 Glitterwrap by design focus has come up with. Again, I
18 welcome you in the question and answer period to go through
19 them.

20 Thank you.

21 MR. PERRY: Now I'd like Barry Zern of City Paper
22 to speak.

23 MR. ZERN: My name is Barry Zern and I am Vice
24 President of City Paper Company and a purchaser of imported
25 bulk tissue. City Paper Company is a 107 year old family

1 business located in Birmingham, Alabama. I have been in the
2 paper business myself for seven years.

3 City Paper Company sells bulk tissue for store use
4 only. Many of the Respondents here today do the same and
5 many only sell small packs of tissue for resale to the
6 consumer. We believe they are two separate markets with
7 different channels of distribution and different
8 manufacturing processes due to the packaging requirements of
9 the resale packs. We also believe that bulk tissue and
10 tissue paper for the retail market are separate like
11 products and the producers should be considered separate
12 industries.

13 Bulk tissue paper and tissue paper for the retail
14 market has different physical characteristics and uses
15 because they are sold through different distribution
16 channels catering to different ultimate customers with
17 differing needs. Bulk paper is sold in bulk or reams of
18 paper which weigh six or seven pounds per ream as Mr. Perry
19 recently showed you. The cost of this is strictly related
20 to the weight of the paper. At the mill level the product
21 is bought and sold by the ton. Most bulk tissue paper is
22 white.

23 In contrast, the consumer tissue paper produced
24 for the resale market is sold in small packages where the
25 cost of the packaging dominates the cost of the product.

1 Most consumer tissue is colored tissue. Bulk paper is
2 primarily sold to stores which uses the tissue paper to wrap
3 products carried out of the stores. For the vast majority
4 of the product, the ultimate end user is the store itself.
5 In contract, consumer tissue paper is sold in small packages
6 which is for resale by the consumer.

7 Often instead of one color, almost exclusively
8 white, being sold in a single ream of paper, consumer paper
9 is sold as small packages of several different colors. In
10 fact for consumer tissue paper the packaging may be more
11 important than the tissue paper itself.

12 Tissue paper for the bulk market for the most part
13 is not interchangeable with consumer tissue paper. Retail
14 customers want to buy small packages of tissue in packages
15 with several colors, not large reams of tissue paper.

16 The channels of distribution are also different.
17 Although stores buy bulk paper and consumer tissue, for the
18 most part they are different stores. Upper end stores such
19 as Sacs, Nordstroms and independent boutiques buy bulk
20 tissue and use it to wrap items for their customers. In
21 contrast, lower end stores like Target, WalMart and discount
22 stores, buy consumer tissue paper where it will be sold to
23 the ultimate consumer on a peg board. to my knowledge there
24 is only one customer, Hallmark, that buys both bulk and
25 tissue paper for the retail market, but this is unusual.

1 They sell it a somewhat old-fashioned way, on a wire rack by
2 the sheet. This is I believe a very very tiny or
3 insignificant portion of the market. The buyers at Hallmark
4 who buy the bulk tissue are different buyers than those who
5 buy the tissue that is sold for resale.

6 Customers and producers have different perceptions
7 of the two products. Customers buy bulk tissue paper to
8 wrap products for sale, whereas retail customer and buyers
9 in retail stores buy consumer tissue paper because of the
10 packaging.

11 Producers also have a different perception of the
12 two products. Although the initial stage bulk tissue paper
13 and consumer paper have the same production process, once
14 the bulk tissue paper is produced, substantial additional
15 production steps have to be taken to produce the consumer
16 tissue paper for the retail market.

17 Often there will be two factories or two
18 production lines. One to produce the tissue paper for the
19 bulk market and the second factory production line to cut
20 the tissue paper and insert it in the various sizes of
21 packages for the retain market.

22 Finally, the prices of the two products are
23 different. Prices for bulk tissue are much lower than
24 prices for consumer tissue. Moreover, bulk tissue is sold
25 on a per pound or metric ton basis whereas consumer tissue

1 is sold on a per package basis because the package is just
2 as important in the price as the tissue paper itself.

3 When one looks at the different market segments
4 they are totally different situations. In the bulk tissue
5 segment over 95 percent of the market is domestic. City
6 Paper, I believe, is the only distributor in this market
7 that is a factor in selling imported bulk tissue. Even so,
8 only 40 percent of our purchases come from China, and in
9 most product segments of our business we at City Paper have
10 a one percent share of the U.S. market in retail packaging.

11 Our mill in China is very tiny. About six percent
12 the size of Seaman's capacity. We chose it because it was
13 the only one in China that could even come close to the
14 quality produced by Seaman Tissue Company and they are
15 currently near capacity with us accounting for 15 percent of
16 their production. Moreover, bulk Chinese tissue is
17 generally inferior and also sold at lower prices because of
18 its lower quality.

19 We note that virtually all of the printed tissue
20 is supplied by domestic producers. I'm referring to printed
21 tissue with store logo which is usually sold directly by a
22 tissue mill to the store.

23 White plain tissue which is sold directly to large
24 retailers, and I'm making the distinction as sold to a
25 distributor which is where I come from, with the exception

1 of three retailers which will be described by Mr. Moreland
2 shortly. We believe that the three segments of bulk tissue
3 -- distributor, that printed for chains and sold to chains
4 plan, all bulk tissue, when added together the domestic
5 producers dominate the bulk tissue market and the combined
6 penetration of imports in all three segments is probably
7 less than five percent.

8 Some additional comments to keep in mind. Seaman
9 Tissue Paper sells colored tissue for \$1.98 a pound. They
10 sell the same color as wax tissue for \$1.66 a pound.
11 Obviously there is an extra process and an extra cost of
12 material to produce the wax tissues paper.

13 Hampshire Tissue Paper sells the same for \$1.38 a
14 pound or 30 percent less.

15 Seaman has chosen a classic market segmentation
16 strategy that exaggerates the price differential with
17 imported tissue. In fact we believe that wax paper should
18 be considered an additional like product for reasons that
19 will be set forth in our post-conference brief.

20 According to Jamie Jones of Seaman Tissue Paper
21 when he came to visit us in October, our tissue paper is
22 inferior to domestic white and colored because the fibers in
23 the paper are directional and the limitation of the colors
24 as well because of the somewhat translucent quality.

25 We decided that we needed to offer our customers

1 this somewhat lesser product in order to help them cut
2 costs. They are mostly small town, independent mom and pop
3 stores who need ever penny they can to survive against the
4 onslaught of the giant WalMart and dollar-type stores.
5 Their jobs and livelihoods are important to this country,
6 the same as union jobs.

7 In October when Jamie came to visit us he
8 basically, although not as overtly as in Mr. Kelly's case,
9 left us with the impression that either he had to have all
10 of our business, and if we dealt with the Chinese mill and
11 continued to do so that he and we might have to make a
12 choice as to who we would choose to ally ourselves with.

13 At that particular point in time we acceded to his
14 wishes and set off a four month chain of events where I had
15 asked Robby Moreland who does most of the actual importing
16 for us to seek alternate manufacturing capability for
17 certain items which we were not getting from China. We
18 succeeded in matching most of the items that we could in
19 case Seaman would make good on what we perceived as a
20 threat. At the same time it sent me off on a trip to China
21 for two weeks where I concluded making alternate
22 arrangements should they be needed. Armed with confidence
23 in this situation we met with Jamie again a week ago in Las
24 Vegas at a trade show and with that confidence we told them
25 that we will continue to deal with Seaman but we will also

1 continue to deal with our Chinese mill. That is our
2 intention, to deal with the mill that we feel can meet our
3 needs and help us advance our business interests.

4 It is surprising to me also that an antidumping
5 suit would be brought at this particular time. As of
6 January 1, 2004, a 13 percent value-added tax export rebate
7 was removed for bulk tissue paper by the Chinese government
8 resulting in an immediate increase in cost for the Chinese
9 producer of 15 percent. Whatever penetration has existed for
10 Chinese bulk tissue is surely to decline as a result of this
11 move because the favorable spread of Chinese bulk tissue has
12 shrunk to the point where it is marginal and no longer
13 justifies for many the uncertainties of the long supply
14 chain associated with Chinese manufactures. If it still
15 exists at all, in some situations.

16 In the marketplace, City Paper Company sells
17 imported colored tissue for \$15.90 per ream. Our
18 competitors sell domestic tissue for \$17.50 a ream including
19 freight. Freight costs about 10 percent. If we are taking
20 market share it is not based on predatory pricing. Possibly
21 on better marketing against our competitors.

22 Over the last seven years our purchases with
23 Seaman Tissue Company and its predecessor Crystal Tissue,
24 have averaged between \$300,000 and \$400,000 a year. They
25 have not declined.

1 During that time we added purchases from Flower
2 City Tissue, Hamshire Tissue and China, so we have not
3 replaced domestic bulk tissue with imported tissue. In fact
4 we have simply expanded our sales.

5 As was testified by the Petitioners, we do not
6 believe that there is a continuum of tissue from the resale
7 pack to the bulk tissue we sold. In all of 2000, 2001,
8 2002, 2003, City Paper did not sell one item, one customer,
9 one retail pack. Almost all of our tissue was sold in
10 minimums of 200 sheets per ream, and most of the resale
11 packs are really under 20 or 30 sheets. There are very few
12 in the 100 range.

13 As far as the club pack is concerned, the club
14 pack has a bar code on it, it's a resale item. As far as
15 business customer purchasing it, City Paper Company has I
16 think about 7,000 customers. We have a few really large
17 customers but most of our customers are very tiny stores.

18 Of the 7,000 stores we have, many are owned by a
19 single person. One woman in a gift shop. And I can tell
20 you, that woman buys a full ream of 500 sheets for that tiny
21 little gift shop, and sometimes she'll buy two or three
22 reams or even a full case, and sometimes it's colors.

23 So whoever is in business and buying a club pack
24 of 120 or 300 sheets is not really in business the way we
25 would come to know being in business.

1 The other point that was made I would like to
2 address is the market is really declining in a sense. Some
3 people think it's stable, some people think it's declining.
4 What's happening in our larger customers are people are
5 using less gift boxes which are very expensive, maybe on the
6 order of 10 or 15 cents apiece. When they don't use a gift
7 box they don't use gift wrap, they don't use tissue, and
8 they don't use a ribbon. So there are varying degrees of
9 what's not being used but many larger retailers are doing
10 this to save money on in-store labor costs, but also the
11 cost of the merchandise.

12 Smaller retailers in their own way are doing the
13 same thing. So it is more and more difficult for us as a
14 distributor catering to small retailers to grown and most of
15 our competitors are not growing. So I just wanted to make
16 that one point.

17 That concludes my testimony. Thank you.

18 MR. PERRY: I'd like Robert Moreland, President of
19 Standard Quality Corp. to speak.

20 MR. MORELAND: My name is Robert Moreland. I'm
21 President of Standard Quality Corp. Thank you for the
22 opportunity to come here and speak.

23 I've been in business for 2.5 years. I started
24 this business basically myself. I went out and mortgaged my
25 house and took a trip to China. First I talked to customers

1 and found out what they wanted, and went and visited a bunch
2 of factories, corresponded with factories, and found people
3 who said they thought they could make it and they sent me
4 samples that were similar to what my customers might want.
5 I went to the factories and explained to them in detail,
6 through a translator, exactly how they were to make the
7 product and then take care of all aspects of purchasing,
8 importing, and delivery to my customer.

9 My first customer was Barry Zern. I've been very
10 grateful to him. I have serviced Barry for two years.

11 I also picked up another customer, TJ Maxx.
12 Indirectly, TJ Maxx. I don't sell directly to them, but
13 through another distributor I supply TJ Maxx.

14 It was my understanding that TJ Maxx was the
15 largest single tissue customer in the United States in terms
16 of tonnage. I don't think in terms of value by any stretch,
17 but just in terms of quantity.

18 Having picked up these two customers I believe I
19 am the largest importer of bulk tissue strictly in terms of
20 tonnage. It was a very lucky break for me, but a lot of
21 hard work and my suppliers did a lot of hard work, too.

22 It was easy to come into this market because I
23 think the domestic tissue producers had a very high profit
24 margin and I just came in and caught them by surprise. They
25 didn't see me coming. They didn't react. I know that they

1 can undersell me, they can take away this business if they
2 really want to but they're afraid of the ripple effect that
3 it might have on the rest of the market.

4 In regards to the questionnaire that went out, I
5 really think the quantity data was collected in the wrong
6 terms. It was collected in terms of square meters. At the
7 wholesale mill level bulk tissue is bought in terms of
8 weight, pounds, short tons or metric tons.

9 I actually receive an invoice for cases, but when
10 I negotiate those out, I don't use contracts, it's all on
11 single purchase orders, when I'm in the negotiations we talk
12 about tons for the paper and then we talk about the added
13 cost to convert it into cases and provide the cardboard box
14 or the plastic bags.

15 So really you need to look at this in terms of
16 weight. The raw material for pulp and paper mills, raw
17 materials such as pulp and chemicals are bought by weight,
18 and paper mills report their capacity by weight, usually in
19 terms of tons. Transportation services are typically paid
20 for by weight. You buy a truck, it carries 44,000 pounds,
21 or you hire a truck it carries 44,000 pounds to go to a
22 location. It's paid for by weight. So it's a mystery to me
23 why the Petitioners ask for the data to be collected in
24 terms of square meters, other than the Chinese typically
25 prefer to offer lighter weight tissue, and by asking for the

1 data to be in weight it would skew the data to make it look
2 as though they are importing more square meters. To compare
3 a 14 gram sheet which is customary in China, that works out
4 to an 8.5 pound sheet; to a 16.2 gram sheet which equals a
5 10 pound sheet. The Chinese are supplying a lighter weight
6 sheet it makes it look like they're supplying more square
7 meters, but if you look in terms of weight it would be more
8 favorable, it's a customary unit.

9 It's also the unit that Customs looks at.

10 MR. CARPENTER: Mr. Moreland, I'm sorry to
11 interrupt, but your panel's time is up. Could you summarize
12 in a sentence or two?

13 MR. MORELAND: Okay.

14 May I go over this? This is an article in Pulp
15 and Paper Magazine from February showing the domestic
16 industry produced 6,454,000 metric tons of tissue and
17 toweling grades in the range of 11 to 33 grams per square
18 meter. The Petitioners cover papers not exceeding 29 grams
19 per square meter. The Petitioners want to argue that they
20 are suppliers to the retail segment of the market, are a
21 separate issue from the tissue paper industry at large. In
22 fact Putney Paper themselves produced both toweling for
23 wiping and tissue for retail packaging. Putney is a
24 Petitioner but they did not show up to give testimony to
25 that effect.

1 In principal, most tissue machines could make bulk
2 packaging tissue if they wanted to. In comparison the total
3 imports for all papers and the harmonized tariff schedule
4 numbers listed by the Petitioner -- and that includes papers
5 up to 150 grams, totaled 59 metric tons from China which is
6 about one percent of the domestic production of tissue and
7 towling grade.

8 It should be noted that three million metric tons
9 of the subject harmonized tariff schedule numbers are
10 imported from the rest of the world. Considering the small
11 penetration of imported bulk tissue into the packaging
12 segment of the paper industry and the small penetration of
13 the subject harmonized tariff numbers into the tissue
14 industry at large, we contend that the imports have not
15 damaged the domestic tissue industry at large.

16 It should be noted that there are normal market
17 forces that will reduce the competitive of tissue imported
18 from China in 2004. One, the price of pulp on the world
19 market has increased dramatically in the last few months.
20 Since 2002 Northern Bleach Softwood Craft has increased from
21 a low of \$450 per metric ton, reaching \$600 per metric ton
22 in February 2004.

23 Secondly, as Mr. Zern noted, the China government
24 has recently eliminated a 13 percent drawback program which
25 refunded value-added taxes that were on raw material that

1 factories converted to finished products and exported.

2 MR. CARPENTER: Good. Thank you, Mr. Moreland.
3 What we'll do is we'll make this article you're quoting from
4 an exhibit to the transcript so the Commission will have
5 that. It will be made part of the record and then we'll
6 have that in its entirety.

7 Thank you again very much to the panel for your
8 presentation. What we'd like to do, I understand there are
9 some witnesses from Target that have an early flight to
10 catch so I'd like the staff to direct any particular
11 questions they have to Target first, then we'll move on to
12 the other witnesses from there.

13 Mr. Diehl, do you have any questions?

14 MR. DIEHL: Hi, thank you for your testimony
15 before.

16 Ms. Rooney, I think you testified that most of the
17 consumer paper you sell is sold in conjunction with gift
18 bags, is that correct?

19 MS. ROONEY: Yes, I believe so.

20 MR. DIEHL: Because what we heard from the panel
21 this morning was that only a relatively small percentage of
22 consumer paper is sold in conjunction with gift bags.

23 Do you know of any information that could kind of
24 help us understand how those two statements work together?

25 MS. ROONEY: The only thing I can speak to is as

1 our gift bag sales have increased we've responded and given
2 more space on the sales floor to gift bags versus roll wrap,
3 and as they've increased, our need for tissue has expanded
4 and increased as well. So I would draw the correlation that
5 they're growing together.

6 MR. DIEHL: So your experience is different from
7 what they have said is the overall experience.

8 MS. ROONEY: Correct.

9 MR. DIEHL: Do you have any indication whether
10 your experience is atypical, perhaps? Another way for us to
11 try to understand how the two statements work together.

12 MS. ROONEY: I'm afraid I couldn't answer that. I
13 couldn't speak for Target's experience.

14 MR. DIEHL: Okay.

15 MR. KELLY: Actually as a supplier to most of the
16 major retailers, drug store chains, grocery store chains, I
17 can tell you that there has been an increase in consumer
18 tissue directly related to the growth of gift bags that is
19 still increasing, the growth of gift bags actually taking
20 market share away from gift wrap, is still going on. So our
21 position is different than what the Petitioners shared with
22 you.

23 MR. ZERN: I'd like to add to that same topic. I
24 think if you go into any retailer and look where the gift
25 wrap tissue is merchandised, it's right next to the gift

1 bags. So I think it's a correlation of seeing the two hand
2 in hand. They're going to buy a bag, they need gift tissue
3 for that bag.

4 MR. SCOTT: I'd also like to add that it could be,
5 if I understand your question, that when you go into a store
6 like Target there are gift bags and there are tissue, there
7 is no gift boxes that people are going to do at the store
8 level if you were including them in that respect, for store
9 use the tissue is primarily put in a box and at Target, sold
10 that way, it's primarily put in a bag.

11 MR. DIEHL: Ms. Rooney, I think you also explained
12 that the gift bags with the tissue sold with them are
13 replacing roll wrap, right? So this would represent an
14 expansion of the tissue market, is that right?

15 MS. ROONEY: Yes, in our business over the last
16 couple of years we have noticed that roll wrap sales have
17 declined and gift bags and tissue has increased.

18 MR. DIEHL: And roll wrap, it's different right?
19 That is a heavier paper that goes on the outside of a box,
20 whereas now you have a bag and a tissue that goes inside.

21 MS. ROONEY: Correct.

22 MR. DIEHL: Another point that I'd like to get you
23 to clarify, Ms. Rooney, is I think you said in your
24 experience the suppliers are often proposing designs, the
25 tissue paper suppliers may be working with suppliers of the

1 other components of the package that is sold whereas what we
2 heard this morning was that purchasers will say what design
3 they want. Could you just comment on that further?

4 MS. ROONEY: Yes. We actually do that both ways.
5 With the better assortment that we described with the color
6 statements, we do in-house determine what colors we deem as
7 being trend appropriate for our assortment, and also the
8 designs that coordinate with that. So we do do it in about
9 half of our business. The other part of our business which
10 is our best assortment, we rely very heavily on the design
11 from our resources for the gift bags another roll wrap and
12 then our tissue needs to tie back and either match
13 identically or at least complement what's going on with the
14 gift bags.

15 MR. DIEHL: How do I understand that in
16 conjunction with the pre-qualifying process? Do you have to
17 first pre-qualify and then only those who have qualified can
18 present a package to you for your best quality?

19 MS. ROONEY: The pre-qualification process
20 actually happens before a vendor even starts talking to my
21 department and that just vendor operations group, makes sure
22 the vendor can receive and accept EDI transmissions which
23 are so important in many avenues at Target, so logistically
24 vendor operations is making sure that that vendor can even
25 do business with Target because of our logistical standards.

1 So that's most of the pre-qualification process.
2 Then if a vendor starts talking to us we would never give a
3 brand new vendor to Target or a new vendor even to our
4 department a program at the magnitude of what we're talking
5 with the tissue business because there are too many risks
6 involved. We can't sell product if we can't get the product
7 into our stores and on the sales floor.

8 So most often with a new vendor we would test a
9 smaller program with them, something that might be
10 considered a special purchase, perhaps something that's on
11 an end cap and not an in home presentation, and we would
12 test the program with with a new vendor first before we
13 would feel comfortable giving them a program of the
14 magnitude of tissue paper.

15 MR. DIEHL: How about this issue of folded reams?
16 Do you sell tissue paper in that format?

17 MS. ROONEY: These are the only two formats that
18 we sell tissue paper in in the Target store.

19 MR. DIEHL: And just for the record you're holding
20 up a folded paper, one of which is --

21 MS. ROONEY: Folded peggable, and then the banded
22 tissue.

23 MR. DIEHL: And the banded has a paper band that
24 covers part of the paper but does not cover all of the
25 paper.

1 MS. ROONEY: Correct.

2 MR. DIEHL: Those are the questions that I have
3 for the Target witnesses at this time.

4 MR. CARPENTER: Mr. Forstall?

5 MR. FORSTALL: Thank you, Mr. Carpenter.

6 One question, a follow up question for you, Ms.
7 Rooney. You mentioned the handmade paper. I just wonder
8 what were the particular features of the handmade paper that
9 made that especially attractive to Target.

10 MS. ROONEY: I think the sample actually got
11 passed to the front. The handmade paper, and I don't
12 pretend to speak to the actual technique of how that is
13 done. The suppliers probably could do that much better than
14 I do. But it has, handmade paper has, you can see the
15 fibers moving through the actual tissue and often that's
16 perceived by our guests as being a better quality paper and
17 it certainly offers a unique differentiation.

18 MR. FORSTALL: Thank you.

19 MR. CARPENTER: Ms. Pedersen?

20 MS. PEDERSEN: Thank you very much for your
21 testimony. You probably know I'm going to ask you about
22 reverse auctions since we talked about it earlier.

23 I realize some of this information can be
24 difficult to put together, especially under this sort of
25 timeframe, but what I had asked of the Petitioners earlier,

1 I'd like from Target as well as anyone else on this panel
2 who's participated in a reverse auction for the period of
3 investigation. So from 2001 through 2003, if you could
4 provide detail to the extent that you know it. Your
5 perspective is going to be sort of the flip of what I'm
6 going to ask them for, but who the purchaser was, the date.
7 So in your case who the suppliers were that were bidding,
8 the product, the quantity involved, the initial and final
9 bids, the winning bid and other auction participants to the
10 extent that you know them, and you should be able to provide
11 all of them for your company hopefully.

12 MS. ROONEY: We'll provide that.

13 MS. PEDERSEN: Thank you very much.

14 MS. ROONEY: Do you want that for the reverse
15 auction process only?

16 MS. PEDERSEN: Yes. Thank you.

17 That's all I have.

18 MR. CARPENTER: Ms. Rooney, if I could just ask
19 you, I think the reverse auctions, did you say that was
20 mainly for the better quality product?

21 MS. ROONEY: Correct. Where we design, creativity
22 is completely taken out of the picture there. We
23 predetermine the colors, we design the product and we just
24 hand the specifications to the vendors that participate.

25 MR. CARPENTER: Could I just ask you in your post-

1 conference brief for the period of investigation if you
2 could indicate for all three categories, I suppose some of
3 this would overlap with what Ms. Pedersen asked you, but the
4 suppliers that you purchased good, better and best quality
5 from and what the approximate volumes were from each one.

6 MS. ROONEY: Can do.

7 MR. CARPENTER: Thank you. We appreciate your
8 coming here today and your testimony and your helpful
9 responses to our questions.

10 At this point I'd like to open questions to the
11 panel in general. Feel free to stay if you like, or
12 whenever you have to leave, feel free to leave right now if
13 you'd like.

14 MS. ROONEY: Thank you.

15 MR. CARPENTER: Mr. Ruggles?

16 MR. RUGGLES: Just a quick question.

17 The imports that you bring in, could you maybe
18 specify each firm, what is bulk and what is folded and just,
19 it would be in a post-hearing conference brief. That would
20 be all I need at this point.

21 Thank you.

22 MR. CARPENTER: Mr. Diehl?

23 MR. DIEHL: I made notes about the testimony. I
24 wanted to clarify a couple of points.

25 Maybe starting with Mr. Scott because crepe seems

1 to be getting ignored a lot in this by comparison to tissue.

2 You said there's a large quality difference
3 between the U.S. and the Chinese product. Can you
4 characterize for me how important that is? This is why I
5 ask. If I'm buying crepe paper to decorate for a child's
6 birthday party I'm not sure the average customer notices
7 quality or can judge that before he's bought the roll. So
8 if you could comment as to quality.

9 MR. SCOTT: I think there are several points on
10 this. One, the decision to buy the product first starts
11 with the buyer. Depending on the type of retailer they are
12 and how demanding they are I think in all forms of products
13 sold in the market place there's better quality and lower
14 quality, so it really comes down to what the buyer wants to
15 offer to its customers. I think in turn the consumer begins
16 to know certain retailers offer better quality versus other
17 retailers.

18 When the product is in the package, I actually
19 have two samples here from American Greetings. It's the
20 same exact color. One is made in China, one is made
21 domestically. This is probably the customer Seaman was
22 talking about before.

23 You can clearly see the difference in the quality
24 which is supposed to be the same exact color. I have two
25 samples here that I opened and I have two samples that I

1 have not opened. The same UPC code, the same color. The
2 color is drastically different compared to what the U.S.
3 standard is.

4 When you start unwinding it, and I did pass over a
5 color board showing the difference in quality between a U.S.
6 manufacturer and a Chinese supplier, you can immediately see
7 the difference. And again, I'm not an expert in the
8 manufacturing process of this but you can see how
9 transparent this crepe is. You can also, by the touch, when
10 you kind of rub it through, you can feel that this is
11 definitely a heavier weight crepe tissue paper.

12 On the edge you can see the black background on
13 the area and that goes toward the quality, the amount of
14 black coming through on lesser quality crepe. It's a
15 difference in quality.

16 Some aspects of the packaging that is beginning
17 to change with crepe. Because this product is sold so
18 inexpensively in the U.S. market a big factor that's
19 becoming an issue more and more so is labor to peg-hang this
20 product. The one customer I'm dealing with right now, and
21 unfortunately I didn't include him in my testimony because
22 we're developing right now, is packaging this is an acetate
23 box, a round box. It's going to add considerably to the
24 cost of the product. The main difference is it's not so
25 much the cost, it's how quick can they unpack the box and

1 get the product on the shelf.

2 You're talking about an item that sold for a
3 couple of dimes to the retailer.

4 Also in this particular package you can see that
5 they went from a peg bag that you got two separate holes
6 that you're trying to get through on the peg hang, and
7 again, much of this product is being sold in the U.S.
8 market. Now you've got a sealed bag that's together, the
9 hole is clearly punched out. They've actually sealed above
10 the package, and I'm also now beginning to see in the
11 marketplace where it's a resealable bottom, where the
12 consumer can take it out, use it, and close it back up.

13 MR. DIEHL: Just so I can keep the context of what
14 you're saying, can you tell me which of those packages are
15 more commonly offered by an imported product compared to in
16 the U.S. product.

17 MR. SCOTT: As far as the packaging?

18 MR. DIEHL: Yeah, you're describing different
19 kinds of packaging but what would be relevant to us is
20 differences in the packaging between U.S. product and
21 Chinese product.

22 MR. SCOTT: I think the product from China is
23 lesser. I think the packaging is getting better from China.

24 MR. DIEHL: How is it compared to the packaging
25 for the U.S. product?

1 MR. SCOTT: It's clear film, it's a duller film.
2 This has a seal down the back, this does not have a seal
3 down the back.

4 MR. DIEHL: Can you qualify it in terms of better
5 or worse? When you say this is better and that one's worse,
6 on the transcript nobody will be able to tell what you're
7 holding up. Maybe it's similar. I don't want to force you
8 to say something.

9 MR. SCOTT: This is the domestic pack that has a
10 cloudy bag with a seal down the back, unresealable on the
11 bottom. It has a dual hole without a sealed top to be able
12 to hang the bag quickly.

13 The Chinese bag does not have the seal down the
14 back, has a resealable bottom, has a printed front and back
15 and is sealed above the product so you can peg hang it very
16 quickly.

17 MR. DIEHL: Thank you. I try to drive everybody
18 crazy at one point or another.

19 Mr. Zern, you were talking about the substantial
20 additional processing and converting for the consumer
21 product as opposed to the retail product, is that right?

22 MR. ZERN: Correct.

23 MR. DIEHL: How do you know that? Do you know how
24 to produce sir, or do you have experience with producers?

25 MR. ZERN: No, I am probably not the expert here

1 to tell you about that process. I've seen the process in
2 China.

3 When the paper first comes off, the tissue first
4 comes off, it is probably very similar to the U.S., but at
5 that point whereas the U.S. process is totally, or nearly
6 automated, the Chinese process has a whole bunch of people
7 at the end of it and they are counting out, actually each
8 tissue sheet is counted out manually by a person which is a
9 hard thing to realize until you actually see it. They count
10 out each tissue sheet and then they put it in the resale
11 package and fold it, et cetera. But of course the package
12 itself has a lot of labor in it. It's printed. The
13 printing process has a tremendous amount of labor and if you
14 add all that up together the package, the shipping of it to
15 the mill, et cetera, et cetera, there's just a lot of extra
16 labor component. But not necessarily less efficient because
17 the Chinese labor is obviously more efficient for them than
18 a machine.

19 MR. DIEHL: When I heard that the first time I
20 thought you were talking about the conversion process which,
21 as I understand it at least, is where you go from the jumbo
22 roll to an almost finished product. It hasn't but cut and
23 folded yet.

24 Were you referring to the conversion process was
25 more expensive or more costly comparing the consumer versus

1 the retain product?

2 MR. PERRY: I think what you're comparing here is
3 really the bulk product and what happens with the bulk
4 product is you've gone through the production but then when
5 you go to the next stage which is down to the consumer
6 tissue paper, then you have additional production process
7 involved there. And moving from the bulk to the consumer
8 tissue paper. That's where the additional production
9 process is involved.

10 MR. DIEHL: So things related to packaging and
11 sorting.

12 MR. SCOTT: Exactly. Packaging and sorting and
13 putting in boxes. It's a very labor intensive process. The
14 point that I was making was that if you have bulk tissue,
15 there's 500 sheets or 480 sheets come out, it's put in a
16 poly bag and it's relatively simple.

17 If you then have the resale pack you have all
18 these other added manufacturing processes which is the
19 printing of the poly bag, the making of the poly bag, the
20 insertion of the paper, the folding of the paper and putting
21 it into the poly bag. There's a different manufacturing
22 process that is not part of the bulk tissue process.

23 MR. PERRY: Something like this is going to take a
24 lot more production time than making bulk tissue.

25 MR. DIEHL: I directed a question to counsel for

1 the Petitioners this morning and let me change that a little
2 bit. I asked for a characterization of the cost associated
3 with producing the jumbo roll compared to the costs that
4 occur during the conversion process after the jumbo roll is
5 made.

6 What I'd like now is for you to select one of the
7 pricing products that we've identified that would be a
8 consumer product and give us figures for that. Again, these
9 can be estimates. I don't want this to be too burdensome.

10 Then if you'd also pick one of the product sets
11 sold in the retail market so I can get a sense of in your
12 experience there is an additional cost post-production of
13 jumbo rolls.

14 This may be very simple, maybe we can dispose of
15 it very rapidly, but I'd also like the Petitioners, all the
16 counsel to address, it sounded as if this morning, the thing
17 that didn't quite register with me for awhile is in the case
18 of Flower City, some of the tissue they're selling is in the
19 form of rolls so this is for the industrial product, for
20 protecting industrial products.

21 I don't know what your position is, whether that
22 comes within the like product. I would assume not, because
23 it's not cut. But if you could just dispose of that issue
24 so I know where all the parties stand on that.

25 Okay. Thank you very much. Those are the

1 questions I have.

2 MR. CARPENTER: Ms. Pedersen?

3 MS. PEDERSEN: Nothing.

4 MR. CARPENTER: Mr. Mehta?

5 Mr. Forstall?

6 MR. FORSTALL: Thank you, Mr. Carpenter.

7 Mr. Kelly, let me start with you and I'll go
8 around kind of in the order that you presented.

9 Is it your understanding, Mr. Kelly, that
10 typically printed tissue paper from China is done with the
11 rotogravure presses?

12 MR. KELLY: Yes, it is. It's my understanding
13 that the tissue paper that we primarily purchase for import
14 for our needs from China with our supplier is rotogravure
15 printed.

16 MR. FORSTALL: Is there any particular difference
17 in the rotogravure printing that the Chinese might use and
18 the flexographic printing which you might find in the United
19 States?

20 MR. KELLY: It is our belief that rotogravure
21 printing allows you to do a much better job with the golds
22 and the silvers, and you can imagine with the Christmas
23 season being our primary focus that gold and silver part of
24 our tissue design are pretty critical. So with the
25 rotogravure process it's been our experience that golds and

1 silvers are much more better quality.

2 MR. FORSTALL: Let me clarify, let you clarify
3 that. The gold and silver inks as opposed to the gold and
4 silver that might be letter stamped or hot pressed onto the
5 tissue paper.

6 MR. KELLY: Actually the rotogravure printing
7 would be closer to the hot stamping process. It would be
8 bright. Shiny. The silver, the gold would shine a lot more.
9 In the flexo [ph] process you get a duller gold and a duller
10 silver.

11 MR. FREEMAN: Regarding print tissue, this is not
12 to do with the consumer pack but custom printed tissue which
13 is part of this. I believe 95 to 100 percent of it is
14 domestic, it's not imported, custom printed tissue. This is
15 where a story whether it's Sacs Fifth Avenue, Lord and
16 Taylor or any major store or even smaller stores want their
17 logo, Brooks Brothers, whatever it is, wants their logo on
18 it, as far as I know most of this is produced by Garlock,
19 Seaman and Eagle. It's extremely difficult to bring it in
20 from China because of pricing. The prices are too low in
21 the United States. I can't bring it in and sell it.

22 MR. KELLY: Let's be sure that we're clear. Mr.
23 Freeman is talking about the bulk tissue market. I'm
24 referring to the retail tissue market.

25 MR. FREEMAN: That's correct, but the bulk tissue

1 market was not described before.

2 MR. ZERN: I'd like to also add on the gravure
3 process, we actually market our entire company that
4 everything we sell from gift wrap to tissue is 100 percent
5 gravure and none of it is flexographic. We believe the
6 degree in difference in printing between the two processes
7 is much grater than just gold and silver. Gold and silver
8 definitely comes out much stronger, but every pattern that
9 we sell within our line is gravure printed. That's been the
10 basis of our marketing of our line to the marketplace.

11 MR. FORSTALL: Mr. Kelly, next question. You
12 mentioned the collated combination packs were not available
13 in the United States and I just want to make sure I'm clear
14 as to what particular features of the collated combination
15 packs are not available. The mylar sheets, the die cutting,
16 hot stamping, or all of the above?

17 MR. KELLY: These samples represent hot stamped
18 tissue. It's actually done in a sheet process rather than a
19 roll process and to my knowledge is not currently being
20 offered or available domestically. So in this particular
21 package you have the colored tissue and you have the hot
22 stamped tissue that is put together.

23 In this particular package for a consumer is die
24 cutting that is different than anything that is currently on
25 the market in the past, and by the way, die cutting tissue

1 goes back to lace doilies. It was really not invented by
2 anyone I think in this particular industry right now. But
3 this particular one has ornaments that are die cut out with
4 a gold mylar associated with it that complements the actual
5 die cutting. It's very critical to have the right tissue
6 sheet. Again, this combination is not available
7 domestically.

8 What we found domestically, and this is an example
9 of the packaging that the Petitioners' economist was talking
10 about is that he personally believed he thought was very
11 innovative and really exciting to the market.

12 This particular product is what the Cleo equipment
13 made and when I was present at Crystal with Mr. Tepe, when
14 we were both there, we had a major sales presentation around
15 the fact that first of all this doesn't display the tissue,
16 this is an outer wrap. You can't see what's inside of it.
17 More often than not when you opened it up the paper actually
18 stuck to the tissue and destroyed the tissue we used to
19 demonstrate this.

20 So when I left Crystal to become President of
21 Cleo, this is what Seaman was encouraging the Cleo people to
22 utilize. The reason for that is because if you are
23 concerned about running your paper machine 24x7, this all
24 can be automated and in-lined. However it's not what the
25 retailers or the consumers desire or wanted, it was what

1 Seaman had the capability to manufacture.

2 The same scenario here. This is the domestic
3 provided product that they want to do the 4x10 with. As you
4 can see it's crumpled, it's wrinkled, it's creased, it's got
5 a seal down the back. You have to punch out the hole so that
6 increases labor for the retailer when they merchandise it.

7 Here's the package that we currently provide
8 through our Chinese source. Again, the resealable pack that
9 Bonita demonstrated to you. The header can be printed where
10 here it can't be printed as well. So there are -- Again the
11 advantage for the domestic producer, this is fully
12 automated.

13 The disadvantage is before they can run their
14 process, do their converting process, they have to have all
15 the information from the retailer. They need to know what
16 the retailer's selling price is going to be because this is
17 individually UPCd, or pre-priced. It has a UPC label on it
18 as well.

19 So they require every piece of information to be
20 available to them before they can run their equipment or
21 their process.

22 The Chinese process is, they do the printing, they
23 do the folding separately from the packaging, then it gets
24 packaged separately as well. So to supply the seasonal
25 Christmas market we're able to do forecasting with the

1 Chinese, have them go ahead and make up the paper ahead of
2 time so when we do get the final information as late as
3 August in some cases to ship within 30 or 45 days, they're
4 ready to go. Domestically we were at an extreme
5 disadvantage. That was the bottleneck was trying to first
6 of all meet the minimum runs that needed to take place on a
7 paper machine to run it 24x7. The market didn't want just
8 white. They wanted these new colors and the new prints and
9 all of that as well.

10 So again, you had a domestic marketplace and
11 papermakers that, thinking tons, thinking 24x7, but yet you
12 had a consumer and a retailer that wanted new and innovative
13 and more responsive to their needs. So that's what drove a
14 lot of us to find alternative ways to meet their needs.

15 MR. FORSTALL: Mr. Kelly, you suggested the fact
16 that, or you suggested that there wasn't enough folding
17 capacity in the United States to handle the seasonal needs
18 for your market? Just a ball park estimate, how much of a
19 downfall is there in terms of the U.S. folding capacity?

20 MR. KELLY: It is my belief that Crystal, who is
21 part of our organization, was the largest domestic folder
22 converter of consumer tissue folds. With us being able to
23 obtain reliable domestic supply for jumbo rolls that wasn't,
24 one, refusing to sell us as Cleo in one particular case on a
25 different finished goods, or that didn't compete with us.

1 It's my belief that today there's not enough folding
2 capacity to meet the seasonal Christmas need domestically.

3 MR. FORSTALL: Thank you.

4 MR. SCOTT: Can I add one piece to that?

5 MR. FORSTALL: Sure.

6 MR. SCOTT: I think the market has changed so
7 rapidly. We're talking the last 18 months to two years.
8 Some of the products that are being presented here didn't
9 exist 18 months ago.

10 This market, because of the innovation that we've
11 been able to come up with and the Chinese have been able to
12 execute on, that you're looking at a snapshot of where the
13 industry is today as far as the innovation. It's not like
14 it's at this point and it stopped. It is going full force.

15 The items that Cleo are presenting that are
16 probably going to be selling this Christmas season, probably
17 they weren't offering last Christmas season. The items that
18 Target carried this past spring and last year didn't exist
19 before that. This market is moving at a very very rapid
20 pace. I can't stress that enough.

21 Three years ago you couldn't buy die cut tissue.
22 You couldn't buy hot stamped tissue. The market is really,
23 in the packaging side, as well as the pack where you looked
24 it up before with gift wrap and tissue, ribbons and bows
25 over there, I mean all this market is just moving so

1 rapidly. A lot of it is the equipment doesn't exist for
2 this.

3 I don't think, even if they could die cut tissue I
4 don't think their equipment could package the die cut tissue
5 without it ripping and tearing.

6 Part of the problem is this industry is being so
7 innovative that the equipment just doesn't exist to do this,
8 and to try and design and build a machine like this you're
9 talking about a couple of years to figure it out.

10 The retailers want this product today. We're able
11 to supply it to them today. But it's from China.

12 MR. FORSTALL: Let me follow up with a question to
13 you, Mr. Scott, in that regard. How is it, you mentioned
14 the fact that they were able to print and die cut and
15 register. How is it that the Chinese can do it and the
16 United States cannot? Is it because of the manual process
17 involved?

18 MR. SCOTT: I believe all these steps are manual
19 in China.

20 MR. FORSTALL: Would this process of die cutting,
21 the die cutting to register, would that be a sheet-fed
22 operation?

23 MR. SCOTT: I have not seen the physical operation
24 myself. I have seen similar items in gift bags. The die
25 cut pop-up top. Generally speaking it is taking five or ten

1 sheets and placing it in a press manually and stepping on it
2 and the press comes down and die cuts it out. That's how
3 you're getting the "die cutting in register".

4 MR. KELLY: Mr. Forstall, I've actually seen it
5 first hand, the rotogravure printing process in China. It's
6 much more light weight equipment that they're utilizing.
7 Their mindset is that they can print a much smaller raw
8 material roll versus, my experience domestically is, the
9 mentality is they want to print a 500 pound roll that goes
10 on the printing press versus a 100 pound roll. So the
11 flexibility is there to not have to create as much sales to
12 justify customizing something for someone. There's more
13 flexibility.

14 MR. PERRY: I'd like to just mention one thing. I
15 have to bring this up. You have an almost identical issue
16 in another case and that's the bags case. Polyethylene and
17 retain bags case. The high end shopping bag cannot be
18 produced in the United States and it's the same issue. All
19 the hand labor that is required to produce the high end
20 shopping bag. You've got the same problem here. The high
21 end, the consumer markets, the high end, it's a lot of hand
22 labor and you just can't afford to do that in the United
23 States. Same issue.

24 MR. FORSTALL: Thank you.

25 Let me switch gears and just conclude with a few

1 questions to you, Mr. Moreland.

2 At first, for the record, could you please explain
3 the difference in the non-colored, the grades of non-colored
4 or white tissue, however you regard it.

5 MR. MORELAND: Probably the largest volume of
6 tissue, both imported and in the domestic market, is a white
7 sheet such as this with a smooth finish on it. This is what
8 I would call a number one white tissue.

9 There are other tissues that are white that are
10 very nearly as good as this that may be made from recycled
11 fiber. They will sell for considerably below what this
12 sells for.

13 There's a product such as this which is made from
14 newsprint or used books --

15 MR. FORSTALL: You're talking about recycled
16 newsprint?

17 MR. MORELAND: Yes. It may be Chinese newsprint
18 that was in their market or they may import it from the
19 U.S., with very low technology de-inking process then flush
20 it up and make it into a tissue like this. The only purpose
21 of this is for protection. There's no aesthetic, no
22 decorative purpose at all. There's a color here every third
23 sheet. That's just as a counting aid so at the retail stand
24 they can count out three sheets real quickly to wrap and box
25 items.

1 MR. FORSTALL: That would be, I think you
2 mentioned a number four grade?

3 MR. MORELAND: Yes. We'll call this a number four
4 tissue. And this is the largest volume, the largest single
5 buyer of tissue buys this.

6 MR. PERRY: This is Shelly Freeman of Wego and he
7 didn't get to speak before.

8 MR. FREEMAN: This is something else that we
9 import from Wego, an importer of tissue. We import number
10 one tissue, we import number two or four and it's sold into
11 the dunnage market, it's sold to manufacturer who put it in
12 boxes. It's not for retail. This is a retail application,
13 one of the rare retail applications in the United States.
14 Most people use a number two or number four or number three,
15 whatever you want to call it, and the number refers to how
16 less white it is. Most of this goes into dunnage, stuffing
17 shoes, stuffing handbags, and for dunnage. Your
18 Petitioners, Paper Service and Putney manufacture that
19 grade. I didn't get a chance to get into it, I don't know
20 if you have a moment now, but I can tell you one of the
21 Petitioners I've known for 25 years and he has not upgraded
22 his equipment. He's practically out of business and because
23 he never upgraded his equipment from cylinder machines to
24 foreigner machines with the wire he cannot compete in the
25 market at all. And as the industry in the United States has

1 disappeared, the garment industry, and other manufacturing
2 industries have left, so has his base of sales. He's never
3 been able to replace it because he never upgraded his
4 equipment. So I was very surprised to see him as a
5 Petitioner.

6 One other thing regarding tissue, most of the
7 Chinese mills can and sort of prefer to use lightweights in
8 the number one tissue where they go from a nine pound to an
9 eight pound. They do it easily and on small runs. Most of
10 your tissue mills in the United States who are Petitioners -
11 - Seaman, Flower City, Putney -- prefer to run towards the
12 10 pound or 16.2 grams.

13 MR. FORSTALL: Let me clarify that for the record.
14 That's nine pound on a 3,000 square foot basis?

15 MR. FREEMAN: Ten pounds. 16.2 would be a ten
16 pound. It comes to approximately 10 pounds. You've got a
17 15 gram which is 9.22, you've got a 16 which runs I think
18 it's 9.8 which would be the equivalent of a ten pound U.S..

19 MR. FORSTALL: Okay.

20 MR. FREEMAN: The Chinese can run a 14 gram which
21 is like 8.6.

22 Again, it's very important to understand that when
23 you have a piece of tissue that has less fiber in it, less
24 furnish in it, it costs less. Sometimes you don't need a ten
25 pound tissue or an 11 pound tissue to do a particular job.

1 One much lighter will work. But the mills in the United
2 States run let's call it on average a 10 pound tissue
3 because that's the way their machines are set up. They have
4 a difficult time in running light weight sheets all the time
5 where the Chinese do not. They can run short. Short runs.

6 MR. FORSTALL: Thank you very much.

7 One final question, am I given to understand by
8 the submission of the Pulp and Paper article that counsel
9 will make a like product argument on sanitary tissue and
10 household tissue?

11 MR. PERRY: We'll make a general one. Probably we
12 will try to expand the domestic industry using the wax
13 paper, wax tissue, and more in the jumbo rolls. That's
14 obviously one setting.

15 MR. FORSTALL: Thank you. No further questions.

16 MR. CARPENTER: I'd just like to follow up on this
17 last series of questions to put some of this into
18 perspective.

19 First of all, I guess Mr. Moreland I'll start with
20 you, with the number one, two, three and four paper, various
21 degrees of whiteness. With respect to the consumer market,
22 what percentage would you say of sales in the consumer
23 market are number one paper versus the others?

24 MR. MORELAND: When it goes into little packages
25 it's 100 percent number one sheet. The consumer will not

1 tolerate anything like this.

2 MR. CARPENTER: What are the number two and number
3 three products sold to? Do they --

4 MR. MORELAND: That's sort of a continuum of
5 quality between this being number one and this being number
6 four. Retain packaging, I think laundry.

7 MR. FREEMAN: One other market which was not
8 discussed earlier is the, I believe the entire laundry and
9 dry cleaning market which buys a pink white tissue, a blue
10 tissue -- not a pink white. A pink tissue, a blue tissue,
11 and sometimes a white tissue and a number two, off-white.
12 Heavier basis weights. This is say a 10, this is 15 pound.
13 For over a hanger or stuffing your sleeves. The entire
14 industry is supplied I believe by U.S. manufacturers.
15 Chinese have not been able to make any inroads whatsoever,
16 and I being an importer cannot buy pink tissue, colored
17 tissue, blue tissue, colored tissue, cheap enough to supply,
18 distribute it to the U.S. market. Solely controlled by
19 Putney, one of your Petitioners, and also by Eagle who is a
20 Petitioner.

21 MR. CARPENTER: We've seen a number of products
22 like this number four paper and so on which goes into the
23 retail sector for protection purposes and so on. I'm trying
24 to get an idea of, in the consumer market segment it sounds
25 like all the white or off-white paper would all be number

1 one white. Is that correct?

2 MR. KELLY: Mr. Carpenter, I can speak to that. I
3 know with our particular, and I think we're one of the
4 largest providers of consumer tissue, I would tell you we
5 have very tight specifications with our Chinese supplier who
6 we use. We've actually changed suppliers because they did
7 not meet our specifications. But we would have a brightness
8 that would be in the 82 range or above, and typically 80 or
9 above is acceptable in the consumer industry domestically.

10 I would tell you that we have a ten pound basis
11 weight target based on a 500 sheet 3000 calculation that Mr.
12 Forstall, and I believe Mr. Jones also said they use. We
13 use the same basis weight. We also have bleed tests for
14 color that a lot of people think that tissue is tissue.
15 It's not. Christmas morning you don't want to open up a
16 gift and find your sweater or your purse has red dye or
17 green dye on it. Again, not every mill in China can make
18 the specifications of the consumer tissue that we're after,
19 so I wanted to make sure that we're clear. That's another
20 very distinguishing point between the consumer and the bulk
21 are those types of specifications for the product.

22 MR. CARPENTER: If I could ask you a follow up
23 question, Mr. Kelly.

24 Do you have, could you give us an estimate or
25 maybe you'd like to do it in a brief as to within the

1 consumer market segment what percentage of sales of tissue
2 paper are white versus colored versus some of these value-
3 added products that we've seen today?

4 MR. KELLY: I'd be glad to provide that. We have
5 that information.

6 MR. CARPENTER: Thank you. And if I could ask
7 Petitioners to provide similar estimates too.

8 MR. HARTQUIST: We'll provide that too.

9 MR. CARPENTER: Thank you.

10 Mr. Corkran?

11 MR. CORKRAN: Again, thank all of ya'll for
12 appearing before us today. Doug Corkran, the Office of
13 Industries.

14 The first question I wanted to be absolutely clear
15 on was to essentially get a summary of the like product
16 arguments that I believe we're hearing. I think I heard of
17 a possible like product argument on tissue paper at large.
18 I've heard a discussion of separate treatment or additional
19 treatment or wax paper. I've heard reference to jumbo
20 rolls. I've heard reference to laundry versus dry cleaning
21 applications. Laundry and dry cleaning applications. Then
22 finally, a couple of different formulations, retail versus
23 consumer or bulk versus consumer which I take to be more or
24 less the same argument but with different terminology. And
25 the way in which I've tried to convert that into, from an

1 end use definition to a more product specific definition
2 which is reams versus folds. I think we heard from a
3 previous panel that there are at least some concerns with
4 that attempt.

5 Could you give me a summary of --

6 MR. PERRY: Let me try that.

7 I think first, obviously crepe and tissue are
8 separate. Petitioner agrees. We're going to be arguing that
9 the tissue, that there should be two separate like products
10 here. Bulk tissue and consumer tissue. I think Barry laid
11 it out and I think Cleo laid it out too pretty well. We're
12 talking consumer tissue is tissue that is sold at the retail
13 level to the consumer; whereas the bulk tissue is sold to
14 stores or other companies but it's not sold to the consumer.
15 The end user is the store or whatever, the dry cleaning
16 place or whatever, but it's being sold in bulk.

17 The whole issue here is this is where the
18 domestics dominate. Why? They have big machines,
19 throughput is so important, and what you're doing when
20 you're producing for the bulk market is just that. You're
21 producing for the bulk market and you're running huge pieces
22 of paper. Consumers don't want to buy a ream.

23 The other side of it is, where on the other hand
24 when you start to move down to the retail side when you're
25 selling to consumers, you basically have a very -- product

1 innovation matters. You're selling in very small packages,
2 often with the tissue put together with ribbons and wrapping
3 paper. So we're saying there's a definite dividing line
4 here. There is no continuum.

5 I used to say and I think one of my arguments in
6 my brief is the Commission has gone so far with continuum
7 you could have a dumping case on covered wagons, set the
8 scope on all four wheeled vehicles and cover automobiles and
9 say that's a continuum.

10 The continuum started in the early '80s, in the
11 early '80s in steel when we had pipe. I was in the General
12 Counsel's office and I remember the problem was we had so
13 many different types of pipe. A continuum has become an
14 excuse for the Commission not to divide the industry and not
15 to look at separate and distinct like products, and there
16 are separate and distinct like products here. Between the
17 bulk tissue paper and the consumer tissue paper.

18 The other side is whether the industry should be
19 expanded and we'll make the point about wax paper and we'll
20 make a point about jumbo rolls. Whether we'll look at
21 something else, we don't know yet, but those two we'll
22 definitely talk about.

23 MR. GIBSON: If I could embellish on that a little
24 bit. We agree, Cleo, with Mr. Perry's differentiation
25 between retail and consumer. I think there may be some

1 confusion of terminology caused by the fact that we wanted
2 to avoid confusion, and that is that within the industry
3 itself that Cleo is in, there's a clear meaning and a clear
4 distinction between retail and consumer. People know what
5 those mean. But when we were discussing with some other
6 market players they confused retail with being what we
7 called a consumer, so we agreed to use the term bulk to try
8 to avoid that confusion. It was not that we were
9 differentiating necessarily by a product description. It
10 still is an end use and a market description and we are
11 comfortable with the terminology retail versus consumer and
12 I think some of the Petitioners also have indicated that
13 they're comfortable with that terminology.

14 MR. KELLY: Just a very quick comment. The
15 distinguishing factors are so clear to me. Very briefly the
16 American Forest and Paper Association which Mr. Jones and
17 Seaman Paper is on the Board of, I believe, very active,
18 involved with, as well as Webster's Dictionary, defines a
19 ream of paper as 480 to 500 sheets of paper. A ream is a
20 ream is a ream is a ream. It's not 200, it's not 400.

21 The other undisputable distinction I believe is
22 one that's sold for resale, packaged with UPC codes, and
23 pre-priced for consumers and one is not. It's not packaged
24 for resale as well.

25 There are others but those two are paramount on

1 what the distinction is, at least from my perception in my
2 mind.

3 MR. CORKRAN: Thank you. I think that helps
4 clarify things a little bit.

5 I think my next question I would like to direct to
6 Mr. Scott.

7 I was really looking with great interest at the
8 catalog you presented, your 2004 catalog. I was trying to
9 determine, what would be the customer base? Who would this
10 be given to for ordering?

11 MR. SCOTT: We supply anyone from the Stacy's
12 Hallmark on the corner of East and Main to Target stores.

13 MR. CORKRAN: So you're really looking, that
14 sounds to me like you're looking for, this would be people
15 in the consumer market?

16 MR. SCOTT: Basically, yes, retailers that sell to
17 the consumer.

18 MR. CORKRAN: As an individual I wouldn't be
19 getting your catalog to order.

20 MR. SCOTT: No.

21 MR. CORKRAN: Presumably I'd be able to order the
22 various items that are included in here.

23 MR. SCOTT: As a retail store owner.

24 MR. CORKRAN: Thank you, yes. Not as a consumer.

25 MR. SCOTT: A \$150 minimum starting order, a \$100

1 reorder, and we ship \$100 orders all day long and we ship
2 \$200,000 orders we wish every day, but quite frequently as
3 well.

4 MR. CORKRAN: One of the things I was interested
5 in when we're talking about domestic like product issues,
6 was the fact that the price for bulk items would tend to be
7 less expensive than the consumer items. I'm wondering, well
8 that appears to be true here as well because it looks like
9 you sell reams at \$20 a ream for solid or \$14 for white.
10 And versus a 48 count at \$3.50 apiece.

11 I'm just wondering, do you sell a lot of reams
12 through your catalog?

13 MR. SCOTT: We added reams as well as choir folds,
14 one of the categories that was discussed earlier. We added
15 that line because we had heard from our sales people that
16 that was a very big item in the United States market. We
17 almost took those items out this past year because we just
18 don't sell very much.

19 I would have to fathom off the top of my head that
20 if we sold more than \$5,000 to \$10,000 in the last year it
21 would be a lot. It's just not a category fours.

22 The choir folds that has been discussed several
23 times that Hallmark, that was an item that we'd been told as
24 well to add. We can't give the product away. The product
25 really in my opinion for the retail store arena is for

1 packaged product. Consumer, 10 sheets, 15 sheets, 5 sheets
2 in a poly bag sold to the consumer.

3 MR. CORKRAN: Would the product listed in here,
4 would it come with a UPC code?

5 MR. SCOTT: All the products in there would come
6 with a UPC code. I don't believe the reams come with a UPC
7 code. I honestly don't know. That's how often we sell that
8 item.

9 MR. CORKRAN: Okay. You mentioned the choir
10 reams. Are the choir reams sold -- choir folds. Are they
11 typically sold to what you would call the bulk market, or
12 the bulk purchasers or --

13 MR. SCOTT: To be honest, I'm really not sure
14 where that's sold. We were asked by our, again, retail reps
15 to add it. There was a market I think that was fairly
16 popular five and ten years ago of taking a choir, as I
17 understand it, is 24 sheets folded in half, and there used
18 to be a fixture in stores that would actually allow you to
19 waterfall these choirs on them. The biggest problem that
20 I've see in the market place in the last several years and
21 it's quite frankly why we don't market the item any more, is
22 the stuff falls on the floor and there's a mess in the
23 store. So to be quite honest with you, we really don't sell
24 any of it.

25 MR. CORKRAN: The last question I had is, we just

1 talked about reams being a very specific number of sheets,
2 but we heard testimony in today's panel and doing some
3 general research on the internet I keep coming across
4 individuals selling reams that can be 200 sheets, 300
5 sheets. Is this common? Is that a very small share of
6 sales as being something other than the 480 to 500 sheets
7 we're talking about? Or is that more complexes?

8 MR. ZERN: Speaking of our own sales and speaking
9 for distributors as a group, if you're talking about white
10 or colored tissue it's all 480 or 500 sheets.

11 There are printed tissue designs that would be
12 sold by a Seaman or a Flower City that would have a ream of
13 200 or 250 sheets, but it's not really a ream. They call it
14 a ream. It's a package. It's a package of 200.

15 The actual printed tissue designs as a percentage
16 of the total is very very small, on the order of maybe one
17 or two percent of what we sell.

18 MR. KELLY: Actually my recollection when Crystal
19 was in the bulk business, the literature did not refer to
20 those, they referred to it as either half reams or packages
21 if it was not 480 or 500 sheets.

22 I think the industry has called a ream any retail
23 packaging or the bulk industry, the common terminology has
24 become what some people refer to that as a ream. I don't
25 know this for a fact, but I would be surprised if even

1 Seaman's literature refers to that as a ream, the 200. I
2 believe it would probably refer to it as a package. Again,
3 I don't know that. They can confirm that.

4 The quire folds do get sold, the majority of the
5 quire folds are sold not to retailers but through the same
6 customer base that they sell their current bulk tissue to as
7 well. There's a history behind that. The reason why
8 there's less sheets in the printed is because those sheets
9 are more expensive. In order to hit a price point they
10 reduced the number of sheets down to a half ream or a
11 package.

12 MR. ZERN: I'd just like to add about the choir
13 folds. We know the choir folds are available. you can buy
14 a ream choir folded. We haven't bought a choir folded ream
15 in years. It's something that we just don't buy any more.
16 Our customers don't want it. There's no reason to have it.
17 It's not that it's broken up or anything it would just come
18 choir folded.

19 MR. MORELAND: This number four bulk tissue isn't
20 even there's no inner packaging in the box at all. It just
21 comes in a 38 pound box with, it's not even counted, it's
22 just weighed out.

23 MR. SCOTT: I would also like to make a
24 distinction. In our facility we actually process all our
25 orders via radio frequency hand helds, so the ream in our

1 case and the choir fold should just come up is UPC code.
2 It's UPC coded just so we can get it through our facility.
3 So I did want to mention that. Any item we bring in is UPC
4 coded just so we can process it through our facility.

5 MR. CORKRAN: Again, I'd like to thank all of you
6 all for your time and I have no further questions.

7 MR. CARPENTER: Mr. Diehl has one additional
8 question.

9 MR. DIEHL: Only one.

10 Mr. Zern, I was comparing my notes about something
11 you had said and something Ms. Rooney had said. Maybe you
12 just have different experiences for different regions. I
13 think she said her sales of tissue are expanding and they're
14 replacing the roll wrap, but I think I made a note that you
15 said the tissue market was either steady or in your view
16 maybe declining a bit. Did I understand you correctly?

17 MR. ZERN: I was probably speaking from my own
18 perspective in terms of bulk tissue. Bulk tissue is
19 definitely declining because at store use, store want to
20 avoid the high labor costs associated with making up these
21 packages.

22 Another reason why possibly it could be declining
23 and hers could be increasing, is that one of the reasons why
24 ours is declining is because the very end user, the woman
25 who is buying -- for the most part it's a woman who is

1 buying the item at the Target store, et cetera, she buys it
2 there and it's not necessarily then sold to the store use.
3 In other words the stores are getting out of it and other
4 stores are selling it and then the customer's kind of
5 satisfied in that respect.

6 MR. DIEHL: Thank you.

7 MR. SCOTT: I think a good indication to see that
8 volume is, I think most of the large big box retailers don't
9 really carry that much in-store use tissue. I think most of
10 this has been sold, as the bulk people indicated earlier, to
11 individual store owners that one person owned the store and
12 was selling it.

13 I think if you look statistically at the
14 retailers, individual retailers and how that market has
15 declined in the last ten years. I know in our gift and
16 stationary market when I first started this business I think
17 17 years ago there was something like 35,000 gift and
18 stationary store retailers. Today I think that number's
19 like 13,000 or 14,000.

20 So if you're able to pull that information, I
21 think that will answer your question, why the bulk market is
22 declining.

23 MR. CARPENTER: Thank you again for your testimony
24 and for your patience with all of our questions.

25 We'll take about a ten minute recess and then

1 we'll proceed with the closing statements beginning with the
2 Petitioners.

3 (Recess taken)

4 MR. CARPENTER: Welcome back.

5 You may proceed whenever you're ready.

6 MR. HARTQUIST: Thank you, Mr. Carpenter. Most of
7 my comments are going to be in the nature of clarifications
8 and incitations of other matters that we will include in the
9 post-conference brief, so these are going to be some
10 scattered comments to hopefully point the way to a number of
11 these issues.

12 Mr. Diehl, you made a comment to rolls, tissue
13 paper being sold in rolls. That's not in the scope of the
14 case nor in the like product definition that we're pursuing.
15 Rolls are not included.

16 On capacity there have been some comments about
17 the capacity of the domestic industry to meet requirements.
18 You'll see and we'll deal with this in the brief too,
19 there's a lot of unused capacity in this industry Capacity
20 utilization is very low and we think there's ample capacity
21 available to serve the market.

22 Production quantities, the allegation was made
23 that the domestic producers like to produce large production
24 runs. It's true. It's more efficient. Seaman, however,
25 the minimum print order that they'll take is 70 pounds, not

1 500 pounds or thousands of pounds.

2 Like product, I'm going to be very anxious to hear
3 Mr. Perry's arguments about wax paper being a like product
4 here. It really just doesn't fit. It's entirely different.
5 It's sold to different companies in the food service
6 industry, it has very different physical characteristics,
7 it's subject to very strict FDA requirements. It just ain't
8 what we're calling tissue paper today.

9 On the Chinese pricing, we may have more to say on
10 this but we have seen no evidence at all that the Chinese
11 pricing has been affected by this reduction in the VAT tax
12 that was referenced.

13 Incidentally, this is public information but we're
14 in the process of preparing a 301 case against the Chinese
15 on the valuation of the ewan [ph] which will be filed
16 sometime not too far down the road. This is an interesting
17 issue in that case as well, what they're doing on the VAT
18 tax. It's quite a story.

19 On quality, there was testimony from Respondents
20 that the Chinese crepe paper is a relatively poor quality,
21 but take a look at the numbers. Their imports from China
22 have been increasing significantly so the quality's good
23 enough to make substantial sales in the U.S. market.

24 Also about quality and Crystal's sales, it's
25 interesting that back in 2001 Target bought about 90 percent

1 of its tissue requiremetns from domestic sources. What
2 happened to switch them over to the Chinese? It's not a
3 matter of quality or the U.S. producers not being able to
4 make good quality product. It's all about the Chinese
5 pricing.

6 Seaman, by the way, does supply Cleo. Just in
7 January, a couple of months ago, they sold about 310,000
8 units for Target. So Target is buying both domestic and
9 imports but they've gone to imports primarily because of
10 price.

11 On the gift bag issue, just a clarification.
12 We've not argued that tissue paper is not sold in
13 conjunction with the gift bags. It is. And we sell our
14 tissue paper for that purpose. What we said was is that the
15 tissue paper is primarily sold separately next to the bags
16 as the Target representative indicated. That's the bulk of
17 the sales.

18 On the question of the coordinated sales of
19 tissue, bags, ribbons, et cetera, one of the Seaman
20 companies used to prepare coordinated tissue for Crystal but
21 they lost the business to the Chinese on the basis of price.

22 The U.S. producers are able to make all forms of
23 collated materials and produce the appropriate packaging for
24 those to sell them in the market.

25 The question of innovation and the fast-moving

1 markets that one of the Respondents' witnesses referred to,
2 sure there are some changes in the market, some interesting
3 things that are happening in the market, but let's just make
4 sure that we don't lose sight of the forest for the trees.
5 This is a very small part of the overall market. It's not
6 the bulk of the sales of tissue paper that we're talking
7 about that fit in these relatively expensive and quite
8 unusual categories that were being discussed. Probably less
9 than 10 percent of the total market we're talking about
10 here, and we'll have more to say about that in the brief.

11 The issue about UPC codes, bar codes on reams.
12 We'll also supply evidence on this, but it's routine that
13 many of the customers, the Seaman representatives have
14 indicated this, require UPCs on reams as well as on other
15 types of tissue paper. I'm not sure whether I'm quite with
16 the witness who said they put the UPC code on to track their
17 product through the production process. That doesn't sound
18 quite right to me.

19 We appreciate your forbearance on what's a long
20 day for a staff conference. Thank you very much.

21 MR. CARPENTER: Thank you, Mr. Hartquist.

22 Would the Respondents come forward at this time,
23 please?

24 MR. MENEGAZ: For the record, this is Greg
25 Menegaz.

1 I think you've heard a lot of interesting
2 testimony today about fundamental differences in like
3 product. The various witnesses you heard from our side,
4 they don't even intermix. There's the consumer business and
5 there's the bulk business, and they're not the same people,
6 it's not the same product. We've put a lot of information
7 on the record, you've see the product yourself, and we'll be
8 addressing that in detail in our brief.

9 We think we've got much more than was necessary in
10 gift boxes for separation there.

11 We've also put information on the record that
12 Seaman's has taken a winner-take-all attitude in this market
13 and bullied all the other parties around and it's either all
14 or nothing, and they found out that it was nothing in some
15 cases. Most of the parties have also said they're willing
16 to do business with Seaman, but not on Seaman's terms.
17 They've got to cater to customers. They've got to sell
18 product that will move off the shelf, not just what will
19 come off of Seaman's machines.

20 We'll address the rest of this in the brief. I
21 think we've said enough. The witnesses had plenty to say.
22 I'm going to move it over to Richard Ferrin.

23 MR. FERRIN: For the record, I'm Richard Ferrin at
24 Hunton & Williams. On behalf of the China Chamber of
25 Commerce for Import and Export of Light Industrial Products

1 and Arts-Crafts, and for Chinese producers.

2 I just wanted to make one brief point that I was
3 going to make in my affirmative testimony but unfortunately
4 ran out of time, and that had to do with the issue of the
5 VAT tax which Mr. Hartquist mentioned very briefly in the
6 rebuttal.

7 What the issue is here is that at the end of 2003
8 the government of China announced a change in its policy
9 regarding the value added tax that it collects. In China
10 both domestic and foreign companies must pay a general 17
11 percent VAT on the transfer of taxable goods and services at
12 each stage of the production process. However the Chinese
13 government has provided rebates on VAT taxes for a wide
14 range of input products provided the downstream products are
15 exported.

16 Prior to 2004 the VAT rebate on paper pulp and
17 paper board was 13 percent. But effective January 1, 2004,
18 the government of China revised the export tax rebate system
19 and effective that date the VAT rebates for exports were cut
20 by an average of three percent. However, on certain paper,
21 paper pulp and paper board the Chinese government completely
22 eliminated the VAT tax rebate. This is very important
23 because it means, it goes directly to the issue of threat.
24 Whatever the trend has been in the past, effective the first
25 of the year that trend is likely to be reversed and there's

1 likely to be a leveling off or a decrease in the projected
2 imports from China specifically because the financial
3 incentives that were in place before by the VAT tax rebate
4 has been eliminated by the Chinese government.

5 Mr. Hartquist said that they haven't seen any
6 effect of it yet but of course there would be no effects of
7 it yet because it only went into effect January 1, 2004. I
8 urge the Commission to consider this when they consider the
9 issue of threat of material injury.

10 We'll have more on that in our brief. Thank you.

11 MR. CARPENTER: Thank you, Mr. Ferrin for that
12 information and thank you Mr. Menegaz.

13 The deadline for both the submission of
14 corrections to the transcript and for briefs in the
15 investigation is Friday, March 12th.

16 If briefs contain business proprietary information
17 a non-proprietary version is due on March 15th.

18 The Commission has not yet scheduled its vote on
19 the investigation. It will report its determination to the
20 Secretary of Commerce on Friday, April 2nd and
21 Commissioners' opinions will be transmitted to Commerce a
22 week later on April 9th.

23 If you would like to know the vote date I'd
24 suggest that you contact the Secretary's office in another
25 week or two. I think it should be finalized shortly.

1 Thank you all for coming. This conference is
2 adjourned.

3 (Whereupon, at 2:42 p.m. the proceedings in the
4 above-captioned matter were concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Certain Tissue Paper Products and Crepe Paper
Products from China

INVESTIGATION NO.: 731-TA-1070

HEARING DATE: March 9, 2004

LOCATION: Washington, D.C

NATURE OF HEARING: Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: 3/9/04

SIGNED: LaShonne Robinson
Signature of the Contractor or the
Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos Gamez
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I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

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Signature of Court Reporter